Department for Energy Security & Net Zero

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

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

29 February 2024

Dear Colleague,

Smart Metering Implementation Programme: Conclusions on 4G Communications Hub only exchange site visits arrangements, and further proposal on the DCC charging mechanism and legal changes.

Following the industry engagement process which took place in summer 2023, this letter contains the conclusions on the industry funding arrangements by which energy suppliers undertake 4G Communications Hub only exchange site visits (i.e. where no smart meter(s) are replaced) in the Central and South regions of Great Britain.

The conclusions (which can be found below) reflect the feedback received from industry, and form part of the Government's support to the smart metering 4G transition. These decisions aim to minimise the risk of smart metering functionality interruption, owing to the sunsetting of the 2G/3G networks.

In addition, DESNZ is now further engaging industry with proposed changes to the DCC Licence and the main body of the Smart Energy Code to support the implementation of 4G Communications Hub only exchange site visit arrangements. The proposals of these changes are set out in Annex A of the document. Responses should be sent to smip.sdc@energysecurity.gov.uk by 5pm on Friday 12 April 2024. All stakeholders are encouraged to respond with their views as the Department is keen to receive input from all interested parties.

Yours sincerely,

D. Walker

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(An official of the Department for Energy Security and Net Zero authorised to act on behalf of the Secretary of State)

Conclusions on 4G Communications Hub only exchange site visits arrangements, and further proposal on the DCC charging mechanism and legal changes.

Contents

Interpretation

In this document:

‘**the Government**’ or ‘**we**’ refers to the UK Government.

‘**the Department**’ refers to the Department for Energy Security and Net Zero (DESNZ).

‘**the Programme**’ refers to the Smart Metering Implementation Programme, which includes the Department’s Smart Metering Implementation Team and the wider group of partners and stakeholders responsible for delivering the rollout.

‘**the Regulator**’ refers interchangeably to the Gas and Electricity Markets Authority (GEMA), or to the Office of Gas and Electricity Markets (Ofgem) which supports the operation of GEMA.

‘**the Targets Framework**’ or ‘**the Framework**’ refer to the smart meter installation obligation which has been implemented and took effect from 1 January 2022 until the end of 2025.

‘**domestic**’ refers to premises at which a supply of gas or electricity (or both) is taken wholly or mainly for a domestic purpose (see Gas and Electricity Supply Licence Standard Condition 6)[1].

‘**non-domestic**’ refers to premises that are not domestic premises. These cover a range of organisations and sectors, including restaurants (hospitality), shops (retail), schools and local authority buildings (public sector). 70% of sites in scope of the smart metering mandate are microbusinesses[2].

‘**Advanced Meters**’ measure consumption every half hour and transmit readings to the energy supplier. These tend to be used at larger non-domestic organisations, such as industrial and commercial businesses.

‘**Communications Hubs**’ or ‘**Comms Hubs**’ refer to devices installed in homes and businesses to connect the Data Communications Company (DCC's) secure network to smart gas and electric meters and allow smart meters and in-home displays to connect to each other.

‘**Meter Asset Providers (MAPs)**’ are businesses that finance the installation of smart meters. They typically own the meter assets and rent/lease them to energy suppliers, who are then able to meet installation obligations without taking on additional debt.

‘**Meter Operators (MOPs)**’ are organisations acting on behalf of an energy supplier to enable the supplier to discharge its responsibility for installing and maintaining electricity and gas meters. In the context of this document MOPs undertake smart meter installations and maintenance activities.

‘**Supplier of Last Resort (SoLR)**’ when an energy supplier fails, Ofgem may appoint a SoLR for their customers. There is an industry process which enables a SoLR to seek to recover additional costs they face in supplying these customers (a 'Last Resort Supply Payment').

‘**customer-driven churn**’ or ‘**churn**’ refers to consumers switching between energy suppliers voluntarily, as a result of the consumer’s active choice.

[1] Ofgem: Licences and Licence Conditions
[2] DESNZ: Maximising non-domestic smart meter consumer benefits, improving the data offer and enabling innovation

Executive Summary

Introduction

1. Smart meters are a vital upgrade to our national energy infrastructure and underpin the cost-effective delivery of the Government's net zero commitment. They are a critical tool in modernising the way we all use energy and support the transformation of the retail energy market, helping the system to work better for energy consumers. At the end of September 2023[3], there were 33.9 million smart and advanced meters in homes and small businesses across Great Britain, which means 59% of all meters are now smart or advanced meters.

2. In July 2023, we published our response to the Mid-Point Review consultation[4] and set out the tolerance levels for Year 3 (2024) and Year 4 (2025) of the Government's Targets Framework. As a result of evidence from industry stakeholders the minimum market-wide smart meter coverage projected to be reached by the end of 2025 was adjusted to 74.1%. This level of coverage will continue to further unlock the considerable consumer and network benefits of smart metering. We continue to encourage industry to go beyond this minimum to ensure benefits (including those for energy suppliers themselves) can be fully realised as soon as practicable.

3. In December 2021, Mobile Network Operators (MNOs) operating in the UK confirmed that they do not intend to offer 2G and 3G mobile networks past 2033 at the latest[5]. After this date, any Communications Hubs still operating on these networks will lose connectivity and associated metering equipment will lose any communication dependent smart functionality. To ensure seamless connectivity, 2G/3G Communications Hubs will need to be replaced in advance of this date.

4. First generation, or SMETS1, smart meters in all regions of Great Britain operate on the 2G network. There is no technical option to exchange only the SMETS1 Communications Hub with a Data Communications Company (DCC) provisioned 4G Communications Hub, so our current assumption is that all SMETS1 assets will need to be replaced with SMETS2 meters and associated Communications Hubs ahead of the end-2033 backstop. Second generation, or SMETS2, smart meters utilise the 2G and 3G networks only in the Central and South regions of Great Britain, so our assumption is that the majority of these meter swill have their associated Communications Hub exchanged for a 4G Communications Hub ahead of the 2G switch off date[6].

5. In the first half of 2022, preliminary work undertaken by the Programme looking at the 4G transition identified a key strategic issue as to how site visit costs to exchange only the 2G/3G Communications Hubs installed with SMETS2 meters in the Central and South regions would be funded. This is because costs associated with 4G Communications Hub only exchange site visits are not covered by existing Meter Asset Provider (MAP) commercial arrangements as no meter is being installed or exchanged.

[3] DESNZ: Smart Meter Statistics
[4] DESNZ: Smart Meters Target Framework: minimum installation requirements for Year 3 (2024) and Year 4 (2025)
[5] DCMS: A Joint Statement of the Sunsetting of 2G and 3G Networks
[6] Except for where the SMETS2 meter has reached the end or near end of its operational life and a full swap out makes commercial sense.

Feedback Received

6. On 20 July 2023[7], the Department issued a consultation, via the Smart Energy Code Administrator and Secretariat (SECAS) website, inviting responses on proposed options for providing installation site visit funding in situations where only a 2G/3G Communications Hub is to be exchanged for a 4G Communications Hub. The consultation also sought views on the eligible cost components for such 4G Communications Hub only exchange installation work, and on options for how the costs of the funding associated with 4G Communications Hub only exchange site visits could be recovered.

7. The consultation closed on 15 September 2023 with a total of 17 responses received, mainly from large energy suppliers and MAPs. Table 1 on page 10 gives a breakdown of the organisations responding to the consultation.

Part One: Funding Options

8. There was broad support for centralised funding provided by the DCC, although some concerns were raised regarding DCC's capability, transparency, and commercial considerations, particularly in relation to the cost of potential financing. The majority of respondents also agreed with not progressing an opt-out option given the complexity involved in the implementation of this option.

9. In addition to the implementation issues highlighted in the consultation, respondents also raised concerns with timings in the delivery of the 4G Communications Hub only exchange funding arrangements and the importance that these were in place in line with the expected 4G transition activity due to start from mid-2025. In terms of the payments, most respondents expressed a preference for an ex-post payment mechanism, whereby an energy supplier is reimbursed on completion of a 4G Communications Hub only exchange.

Part Two: Cost Benchmarking Approach

10. Respondents did not offer a unanimous approach in relation to the elements to be included as part of the calculation of the centralised price for 4G Communications Hub only exchange site visits. In addition to an allowance for failure initially proposed by the Department, some respondents called for the inclusion of additional cost elements such as those related to consumer engagement, reverse/forward logistics, and warehousing costs. Some respondents advocated for these costs to be covered by the energy price cap[8], if left out of the calculation for the centralised price. There was general consensus that an initial calculation of the price should be followed by annual reviews to ensure alignment with market conditions. Most respondents cited Ofgem as being best suited to be the organisation responsible for setting the price, but there was also support for the Department for Energy Security and Net Zero (DESNZ) to be involved.

Part Three: Recovery of Costs

11. Overall, this section of the consultation received the least engagement from respondents. This section set out several options for how the DCC might recover the costs of funding associated with 4G Communications Hub only exchange site visits. The majority of respondents agreed with the analysis of the recovery options proposed in the consultation,

[7] DESNZ: Consultation on 4G Communications Hub Only Exchange Activity Financing
[8] The energy price cap is the maximum amount energy suppliers can charge domestic customers each unit of energy if on a standard variable tariff.

and no alternatives were suggested. Most energy suppliers preferred the charging option, where costs are recovered from sites at which a 4G Communications Hub only exchange has taken place. However, there was no further consideration of the impact of various funding vehicles (and potential implementation issues arising as a result) on this option specifically. We have also reconsidered our underlying justification for the basis of these charges. On this basis, and further to the additional conversations held with the SEC Panel's[9] Communications Transition Group (CTG)[10] following the consultation period, this response now sets out a minded to position to recover costs via DCC Fixed Charges on a GB-wide basis, and gives stakeholders the opportunity to provide views as part of the further consultation on cost recovery arrangements and legal changes attached in Annex A.

Conclusions

12. The final decisions set out in this document reflect the responses received to the consultation, as well as the Government's support to the smart meter 4G transition. These decisions aim to minimise the risk of smart meter functionality interruption owing to the sunset of the 2G/3G networks. These decisions will also be subject to parliamentary scrutiny when the associated DCC Licence and Smart Energy Code (SEC) modifications are progressed through parliament.

Conclusions:

Funding Options

1: We confirm the consultation's minded to position, to require the DCC to provide centralised funding for energy suppliers undertaking 4G Communications Hub only exchange activity for SMETS2 in the Central and South regions of Great Britain.

2: In relation to the payment mechanism, an ex-post mechanism shall be established, whereby energy suppliers are reimbursed on completion of a successful 4G Communications Hub only exchange.

Cost Benchmarking Approach

3: We confirm that DESNZ and Ofgem will jointly establish an initial methodology for calculating the centralised price. DESNZ and Ofgem will also jointly set the initial centralised price and undertake subsequent annual review(s). Ongoing annual reviews will be transferred to Ofgem solely, at a point in time yet to be determined. The initial methodology for calculating the centralised price, including the details of how annual reviews will be performed, will be subject to a joint DESNZ and Ofgem consultation planned for summer 2024.

4: A decision on the cost elements to be included in the centralised price calculation will be deferred to later in 2024, following consultation on the cost benchmarking methodology and indicative centralised price. Any additional costs to be included in the calculations will need to be justified by relevant evidence provided in response to the consultation.

Recovery of Costs

[9] The SEC Panel is responsible for managing the Smart Energy Code (SEC).
[10] The Communications Transition Group (CTG)

5: We are further consulting on a minded to position to recover costs via DCC Fixed Charges on a GB-wide basis, see Annex A.

Cost Recovery Arrangements and Legal Changes

To support the DCC's implementation of 4G Communications Hub only exchange activity funding, we ask for comments on our minded to position and the associated draft legal text in Annexes A, A.1 and A.2 that support the implementation of the above conclusions.

Introduction

Policy Context

13. Smart meters are replacing traditional gas and electricity meters in Great Britain as part of an essential infrastructure upgrade to provide a more flexible and resilient energy system fit for the 21st century. Smart meters play a critical role in modernising the way we all use energy. The ability to record half-hourly consumption and price data from smart meters is unlocking new and innovative approaches to managing demand. This includes, for example, the novel Demand Flexibility Service launched by National Grid Electricity System Operator in winter 2022, and optional smart 'time-of-use tariffs' that reward consumers for using energy away from peak demand times.

14. The Government's Net Zero Strategy[11], published in October 2021, outlined how smart meters are a critical enabler for delivery of a decarbonised power system by 2035 and set out our firm commitment to drive market-wide rollout. Thanks to the continued endeavours of industry, the rollout continues to make good progress. At the end of September 2023, there were 33.9 million smart and advanced meters in homes and small businesses across Great Britain, which means 59% of all meters are now smart or advanced meters[12].

15. In June 2020, the Targets Framework was introduced by Government, and set energy suppliers fixed minimum annual installation targets, subject to tolerance levels[13]. The four-year Framework, covering the period 2022 to 2025, seeks to drive rollout momentum and ensure as many consumers as possible can benefit from the energy and bill savings smart meters enable. In July 2023, the Government Response to the Mid-Point Review consultation[14] set tolerance levels for Year 3 (2024) and Year 4 (2025) of the Framework, as well as the minimum market-wide smart coverage projection by the end of 2025. In response to the consultation, the large majority of respondents were in agreement with the benefits of smart metering and the importance of delivering the rollout to domestic and non-domestic consumers.

16. In December 2021, MNOs operating in the UK confirmed that they do not intend to offer 2G and 3G networks past 2033 at the latest[15]. After the 2G and 3G mobile networks are switched off at the end of 2033, meters will continue to accurately record energy consumption, however any remaining Communications Hubs operating on these networks will lose connectivity and the associated metering equipment will lose any communication dependent smart functionality. To ensure seamless connectivity, the 2G/3G Communications Hubs will need to be exchanged and replaced with 4G devices in advance of this date.

17. Energy suppliers have an obligation[16] to ensure that they take pre-emptive steps to prevent loss of connection in the event of, for example, the 2G/3G switch off. There is a clear backstop in place for this activity by the end of 2033 as a result of the 2021 announcement by the MNOs in the UK that they do not intend to offer 2G and 3G mobile networks past this point.

[11] DESNZ: Net Zero Strategy: Build Back Greener
[12] DESNZ: Smart Meter Statistics
[13] DESNZ: Smart meter policy framework post 2020: minimum annual targets and reporting thresholds for Energy Suppliers
[14] DESNZ: Smart Meter Targets Framework: minimum installation requirements for Year 3 and Year 4
[15] DCMS: A Joint Statement of the Sunsetting of 2G and 3G Networks
[16] Ofgem: Electricity Supply Licence SLC 49.4 and Gas Supply Licence SLC 43.4

18. Since the MNO announcement in December 2021, industry has been working to plan and support a smooth transition period to the next generation of DCC smart metering communication services, which will utilise the 4G mobile network in the Central and South regions of Great Britain. To support preparations the SEC Panel's CTG continues to meet, with the aim of supporting transition planning as we change from 2G/3G to 4G over the next 10 years.

19. In June 2023, the National Audit Office (NAO) recognised the important, positive progress made on the rollout of smart meters since their previous report in 2018[17]. A number of recommendations were made including calls for the Department and Ofgem to work constructively with energy suppliers on the replacement of Communications Hubs, ahead of the 2G/3G switch off[18]. As part of this recommendation, the NAO also acknowledged that this work may include regulatory measures and added that consideration should be given as to how Communications Hub replacements should be financed. The October 2023 Public Accounts Committee (PAC) report also referred to the 4G transition[19]. The Government and Ofgem are working closely with industry to ensure a smooth transition of services when the provision of 2G/3G communication services are switched off at the end of 2033.

20. From a smart metering networks perspective, Great Britain is divided into three regions, Central, South and North. First-generation smart meters (also known as Smart Metering Equipment Technical Specification 1 (SMETS1) meters) in all regions are connected using 2G capability. Second-generation smart meters (also known as Smart Metering Equipment Technical Specification 2 (SMETS2) meters) in the Central and South regions use both 2G and 3G. SMETS2 meters in the North region utilises a different long-range radio technology and are therefore not impacted by the 2G/3G sunset date.

21. In most cases, SMETS1 meters and Communication Hubs are physically integrated together so there is no choice other than to replace the Communications Hub alongside the meter. This, combined with the meter asset age profile, and the fact that 4G Communications Hubs compatible with SMETS1 meters are not being developed, means that all SMETS1 meters will need to be replaced by energy suppliers with SMETS2 meters as part of business-as-usual activities before the existing contracts for communications services comes to an end. We expect this replacement activity to be covered by existing commercial arrangements between energy suppliers and MAPs recognising the expected asset life of SMETS1 devices.

22. Only SMETS2 meters in the Central and South regions utilise the 2G and 3G networks. There is an industry-wide assumption that most of these meters will still have a period of both commercial asset life and operational life remaining at the time of the 2G/3G switch-off. Rather than replacing the full meter set, SMETS2 meter installations will have only their associated Communications Hubs exchanged with a 4G Communications Hub ahead of the 2G/3G switch off date to avoid the loss of smart functionality.

23. Advanced meters used in the non-domestic sector may also be impacted by the 2G/3G switch off as they use this technology. However, advanced meters do not connect to the national smart metering network via the DCC and on that basis, they were not in scope of our consultation and therefore not in scope of this consultation response.

24. It is in circumstances where only a SMETS2 2G/3G Communications Hub is to be exchanged with a 4G Communications Hub in the Central and South regions, that we have assessed a market gap exists for how this activity will be funded. This is because costs associated with

[17] NAO: Update on the rollout of smart meters
[18] Refer to page 16 paragraph 28g of the NAO report (link above)
[19] Parliament: Delayed smart meter programme fails to hit targets and secure public support

the site visits are not covered by existing MAP commercial arrangements as no meter is being installed or exchanged. The funding arrangements for site visit costs would therefore fall to energy suppliers. It was these arrangements for **4G Communications Hub only exchange activity funding** which were the focus of our consultation.

25. We envisage that the 4G transition will be split into three main categories:

- Replacement of SMETS1 with SMETS2 meters and the associated Communications Hubs in all regions, by end-2033 or sooner, dependent on the relevant contractual arrangements for 2G services in place[20].
- Exchange of 2G/3G Communications Hubs installed with SMETS2 meters with a 4G Communications Hubs (and where the smart meter(s) are not being replaced), in the Central and South regions only, by end-2033. **This was the focus of our consultation.**
- Continued new installations of smart meters. This activity is regarded as business-as-usual and independent of the 2G/3G switch off date. The Government expects that new installations will take place with 4G Communications Hubs in the Central and South regions once the technology is available at scale from mid-2025 onwards.

26. To ensure customers' smart services are maintained, energy suppliers will need to be proactive in their operational planning work to complete the necessary exchange activity in advance of end 2033. This work will require close collaboration between industry, Government, and Ofgem. For energy suppliers, understanding the funding arrangements for 4G Communications Hub only exchanges activity will be an important element of this.

Proposals

27. On 20 July 2023, the Government published a consultation on 4G Communications Hub Only Exchange Activity Financing[21], seeking views on options for funding site visit costs, the cost benchmarking approach, and the method by which costs can be recovered. A summary of the consultation is outlined below:

28. **Funding Options:** The consultation set out several options for funding 4G Communications Hub only exchange activity. We proposed the DCC provide centralised funding for energy suppliers undertaking this activity, stating that this option delivers all the benefits recognised in central funding arrangements and addresses some of the principles in relation to simplicity, deliverability, and value for money. We also proposed that an opt-out of centralised funding option should not be progressed due to the additional complexities and possible detrimental impacts this would present. Finally, we sought views on how energy suppliers might be reimbursed following a successful 4G Communications Hub only exchange.

29. **Cost Benchmarking Approach:** A high-level framework for calculating a single value for a successful 4G Communication Hub only exchange was suggested. This framework included conducting an initial calculation of the cost, followed by annual reviews during the 4G transition period. The consultation therefore sought views on this framework, as well as: (i)

[20] The working assumption is where a SMETS2 meter is installed under this scenario, that it will by default be installed with the accompanying Communications Hub associated with the region i.e., Arqiva's EDMI Communications Hub for SMETS1 to SMETS2 replacements in the North region, and the 4G Communications Hub for Central and South regions. It is noted that there is work ongoing regarding the scaling and optimisation of network service performance for the North region which may influence the approach.
[21] DESNZ: Consultation on 4G Communications Hub Only Exchange Activity Financing

the elements of cost which should be included as part of the calculation associated with the exchange activity, (ii) the methodology by which to calculate the cost, (iii) the body/organisation who should perform and validate the calculation.

30. **Recovery of Costs:** Finally, the consultation set out several options for how the DCC[22] might recover the costs of the funding associated with the 4G Communications Hub only exchange activity[23]. In doing so, the consultation outlined both a number of underlying assumptions that were made to narrow down the range of options, and the assessment criteria to consider the various options presented. The consultation therefore sought views on which of the options should be implemented.

Post Publication Engagement

31. Following publication of the consultation on 20 July 2023, and the consultation close date on 15 September 2023, the Department met with several stakeholders to discuss the consultation proposals. These meetings aimed to give stakeholders the opportunity to raise and discuss any specific points about the issues included in the consultation. The feedback provided at these meetings was not taken as a formal response to the consultation but has helped to shape our thinking when developing the Government's conclusions.

Feedback Received

32. The closing date for the consultation was Friday 15 September 2023. A total of 17 responses were received. The majority of responses came from large energy suppliers and MAPs. A list of individual respondents by category can be found in Table 1 below.

Table 1: Respondent by category.

Respondent	Category	Number of Respondents	Percentage of total
Centrica	Large Energy Supplier	7	41%
E.ON			
EDF			
Octopus			
OVO			
Scottish Power			
Utilita			
Calvin Capital	Meter Asset Provider (MAP)	6	35%
Horizon Energy Infrastructure			

[22] Regardless of which organisation arranges central financing for Communications Hub only replacement site visit costs, to the extent that the financing costs are ultimately recovered from Supplier Parties under the Smart Energy Code, we think that such costs will need to be recovered via the DCC.

[23] Throughout this section, references to "costs associated with 4G Communications Hub only exchange activity" is a reference to both the costs of the exchange activity and the associated costs of funding.

Macquarie			
Northern Powergrid Metering			
Smart Meter Assets			
Smart Meter Systems			
Alt HAN Co	Delivery Partner	2	12%
Data Communications Company			
SEC Panel	Other	1	6%
Siemens	Meter Operator (MOP)	1	6%

Questions

33. In the following sections, we set out a high-level summary of these consultation responses and the Government's conclusion in each of the areas covered by the consultation. Part One of this document concerns options around funding (Questions 1 – 9). Part Two relates to the cost benchmarking approach (Questions 10 – 15). Part Three outlines our decision in relation to the recovery of costs (Questions 16 – 19).

34. Table 2 below sets out the consultation questions. "Closed" questions were analysed and categorised into either (i) agree, (ii) agree with caveats, (iii) neutral, (iv) disagree with caveats, (v) disagree, or (vi) no response / not relevant. "Open" questions could not be categorised in this way and responses were therefore classed as either neutral or no response / not relevant.

Table 2: Questions issued in July 2023.

Part One: Funding Options	
1	Do you agree that there is a need to provide specific financing arrangements for visit costs for SMETS2 associated 4G Communications Hub exchanges?
2	Are there any additional initial assessment principles the Department should have considered in the analysis of the financing options for Communications Hubs only exchange?
3	Are there any alternative funding delivery options that have not been identified, and if so what are they?
4	Do you agree with our minded to position that a centralised financing option for all energy supplier best meets the assessment principles identified in this document?
5	Do you agree with the proposal that a centralised financing option led by the DCC will be the best approach?
6	Do you agree that the opt out option should not be progressed for the reasons set out in this section?
7	If you think that an opt-out option should be available, can you specify the financing arrangements that could be used instead and the benefits of doing so?
8	Do you see any implementation issues with the preferred option that the Department should consider in advance of a final decision being taken?

9	Do you agree with the proposed "funding process/payment mechanism" suggested in this section? Do you see any implementation issues with the proposal?
Part Two: Cost Benchmarking Approach	
10	Do you agree that the financing provision for 4G Communications Hub only exchange activity should include the cost of a successful exchange and allowance for failure?
11	Do you have a view on what percentage rate of failure may be appropriate for 4G Communications Hub exchange activity?
12	Do you agree that only the proposed costs (i.e. the cost of the visit to successfully replace a 2G/3G Comms Hub only with a 4G Comms Hub; an allowance provision to account for unsuccessful visits; and the cost of financing) should be included in the provision of finance?
13	Do you agree that there should be an initial calculation for the cost of Communications Hub only replacements using a determined methodology and industry data and then, that amount should be reviewed annually during the period of 4G upgrades?
14	Do you have views on the relevant industry data that should be considered as part of the initial cost establishment and the subsequent review processes?
15	What are your views on who should be responsible for setting the optimal value for Communications Hub only replacement visits, and keeping this price updated during the period of 4G upgrades?
Part Three: Recovery of Costs	
16	Do you agree with the analysis of the charging options set out above?
17	What is your preferred charging option?
18	Do you think there are any practical implementation issues with any of the options identified?
19	Do you think there are any sensible alternative options that have not been identified, and if so, what are they?

Interpretation of Funding and Financing

35. Since publishing the consultation on 4G Communications Hub Only Exchange Activity Financing[24] on 20 July 2023, we are of the view that further clarification of the terms *funding* and *financing* is needed. In the context of both the consultation and this response, the Department views *funding* as the provision of money to cover the costs of a successful exchange of a 2G/3G Communications Hub for a 4G Communications Hub and where a meter exchange did not take place. *Financing* is entering into specific arrangements with a third party to borrow money to pay for the costs of funding, such that the costs might be smoothed over a longer period of time. Financing is therefore a method of funding, and the organisation who provides centralised funding might choose to fund this activity through non-financed means.

36. We are therefore of the view that the decision to establish central funding arrangements is separate from any decision on the method by which the activity is funded (i.e. whether it be financed or not financed). We have therefore amended our references from financing to funding throughout this consultation response where relevant.

[24] DESNZ: Consultation on 4G Communications Hub Only Exchange Activity Financing

Part One: Funding Options

37. In H2 2022 and early 2023 the Programme undertook initial engagement with industry to assess different funding options for 4G Communications Hub only exchange activity. From that engagement process there was a clear preference for centralised funding, as it would avoid additional complexity and would best meet the assessment principles identified to inform decision making, including market equity, value for money and deliverability. See Table 3 for the list of assessment principles set out in the consultation document.

Table 3. Assessment principles used to help inform decision making.

Principle	Description
Market Equity	The ability to fund (and cost of funding) 4G Communications Hub only exchange activity should remain equitable for energy suppliers of differing sizes and/or of varying financial positions.
Market Disruption	Minimal change to existing industry processes, market competition and interaction between industry parties is caused in executing 4G Communications Hub only exchange activity.
Value for Money	Funding and administrative costs of the option are minimised in the interests of the consumer, and the option provides value for money, whilst also ensuring continuity of service is not compromised and 4G upgrade activity is incentivised appropriately.
Market Intervention	**DESNZ:** Minimal intervention from the Department is required to ensure successful implementation of the funding arrangements. **Industry:** Minimal intervention or change is required from wider industry (energy suppliers) to ensure successful execution of the funding arrangement.
Delivery Risk	Risks to successfully completing delivery of 4G Communications Hub only exchange activity by end-2033 are minimised and opportunities for efficiencies are not compromised. Funding arrangements need to be in place ahead of exchange activity, anticipated to commence from 2026 onwards when the 4G Communications Hub solution is expected to be available at scale.
Departmental Considerations	Elements that the Department considers key to ensure an efficient delivery of funding arrangements including experience, competency and impact on deployment.
Industry Considerations	Other aspects highlighted in industry feedback such as simplicity of the financing arrangements (avoiding unnecessary complexity with regards to the charging mechanism and treatment of churn and Supplier of Last Resort (SoLR) activities).

38. Following the analysis of a range of centralised funding options, we set out our minded to position in the consultation, which was that the DCC should provide this service to energy suppliers. The Department was of the view that this option best delivers all of the benefits associated with central funding, and best addresses some of the principles identified by stakeholders as desirable features of a funding framework. This particularly includes the principles in relation to simplicity, deliverability, and value for money. All these benefits are also in the interests of the consumer.

39. In the consultation, we proposed not to make an opt-out option available, therefore effectively providing centralised funding for all energy suppliers undertaking the activity. The reason for

this is that an opt-out option would be complex to administer, potentially expensive to operate and likely to be detrimental to the core principle of simplicity, which was a key feature of feedback received from industry parties following the initial round of engagement.

40. The Department did not offer a preferred position regarding the method by which energy suppliers would be reimbursed for exchange activity undertaken. The consultation set out two options: (i) An ex-ante payment mechanism whereby energy suppliers would be paid in advance of Communications Hub exchanges taking place, based on forecasts submitted by energy suppliers. (ii) An ex-post payment mechanism whereby energy suppliers would be paid within a reasonable period after a successful exchange had taken place.

The Provision of Funding

Question 1: *Do you agree that there is a need to provide specific financing arrangements for visit costs for SMETS2 associated 4G Communications Hub exchanges?*

Summary of responses

Agree	Agree with caveats	Neutral	Disagree with caveats	Disagree	No response / not relevant	Total
9	5	2	0	0	1	17

41. A total of 16 consultees responded to this question, and the majority (14) either agreed or agreed with caveats with the need to provide specific funding arrangements for 4G Communication Hub only exchange activity. Respondents agreed that this would remove financial barriers to energy suppliers and increase the likelihood of a successful exchange programme.

42. There were five suggestions to combine the funding of 4G Communications Hub only exchange site visit with the funding of the 4G Communications Hub asset costs. They stated that this would replicate the existing MAP financing arrangements in a way that would spread the cost over the lifetime of the asset.

43. One energy supplier said that whilst centralised funding should be made available it should not be mandated, as individual energy supplier might be able to secure better value for money financing themselves. They pointed out that industry does not yet know the level of financing that the provider might secure and called for the Department to ensure costs are minimised in the interest of the consumer. They highlighted that keeping optionality around both the levels and sources of funding would be important.

44. Two energy suppliers positioned their responses more broadly than just the 4G related activity and called for a re-evaluation of the smart meter rollout approach more generally. One suggested that centralised funding with a geographically focused deployment approach, led by a single regulated entity would be more cost-effective. The other called for a review of the overall smart meter architecture as well as cost/benefit assessments of a possible solution.

45. One energy supplier stated in their covering letter that it was difficult to make an informed decision on funding options and costs without further information and explicit assumptions. They also asked why decisions on funding were being made at such an early stage of the transition programme.

Assessment Principles

Question 2: *Are there any additional initial assessment principles the Department should have considered in the analysis of the financing options for Communications Hubs only exchange?*

Summary of responses

Agree	Agree with caveats	Neutral	Disagree with caveats	Disagree	No response / not relevant	Total
0	0	14	0	0	3	17

46. 14 respondents answered this question. Noting that this was an open consultation question, nine stated they either agreed with the assessment principles and / or had no additions for the Department's consideration. One energy supplier challenged the importance placed on each of the assessment principles applied by the Department but did not offer alternative evaluation criteria.

47. One MAP suggested the Department consider a further extension of 2G/3G services provided by MNOs to maximise the life of assets, thus avoiding the premature removal of meters, which would have a detrimental impact on the Programme's costs and on the environment. They also called for consideration of around 3 million SMETS1 meters where the Communications Hub is removable and where a 4G solution should be explored.

48. Another MAP suggested three additional assessment principles. The first was around ensuring that the funding model encourages and enables innovation. The second was ensuring the funding model enabled the reduction of environmental impact and the overall carbon footprint of the Programme. The final suggestion was to consider the health and safety implications of any funding model by ensuring robust and accurate data, to monitor the location and technical performance of the Communications Hubs. This monitoring would ensure that the cost of any systemic asset failure is minimised and, more importantly, the safety of consumers is assured as faulty/defective Communications Hubs can be quickly identified and replaced accordingly.

49. One energy supplier, whilst agreeing with the assessment principles, wanted to include 'Competitive Tension' to encourage the market to find the best funding arrangements to minimise costs.

50. Another energy supplier expressed concern with how the Department considers 'Value for Money' as the lower cost option, without taking into account the balance between cost and quality. They highlighted a potential missed opportunity for efficiencies in terms of using resources with different skill sets to undertake the 4G Communications Hub only exchange activity. They suggested exchanges should be planned geographically to also cover wider

aspects of installations, including rectification of issues such as smart gas meter battery replacements.

Alternative Funding Delivery Options

Question 3: *Are there any alternative funding delivery options that have not been identified, and if so what are they?*

Summary of responses

Agree	Agree with caveats	Neutral	Disagree with caveats	Disagree	No response / not relevant	Total
0	0	15	0	0	2	17

51. 15 consultees responded to this question, nine of which stated they had no suggestions for alternative funding delivery options.

52. One energy supplier reiterated that centralised funding should be a choice and that an opt-out option should be provided. However, they did not provide alternatives to overcome the additional implementation challenges and complexity that an opt-out option would entail, particularly in relation to how to manage costs of 4G Communications Hub only exchanges on churn. They claimed it was not yet clear how the central funding provider might be incentivised to seek out a better overall level of financing than energy suppliers. It was suggested that some level of comparative funding analysis should be considered before the final decision is made.

53. Two MAPs suggested that the DCC should review and seek to extend the 2G/3G contracts with MNOs beyond the dates already confirmed, suggesting they be extended to 2040. They suggested this alternative option would eliminate asset stranding of SMETS1 meters (and almost all SMETS2 meters).

54. Two respondents referred to an alternative 4G Communications Hub only exchange activity deployment approach. One of them (a MAP) advocated for a centralised workforce carrying out the exchange activity, suggesting an energy supplier led deployment could potentially increase early meter removals as they would be utilising a higher skilled/higher paid workforce. This MAP argued a centralised supplier-agnostic deployment approach would enable street-by-street Communications Hub replacement using a workforce with a skill set in line with the exchange activity. One energy supplier called for a Regulated Asset Base (RAB)[25] approach to financing, claiming that this would be the cheapest option for energy consumers. They suggested that electricity Network Operators might be best placed to assume responsibility for both ownership and replacement of 2G/3G Communications Hubs with 4G Communications Hubs.

[25] In a RAB model, private (or corporatised state-owned) companies act as the infrastructure manager: they own, invest in and operate infrastructure assets. The infrastructure manager receives charges revenue from users and/or subsidies to fund its operations and recoup investment costs.

Centralised Funding

Question 4: *Do you agree with our minded to position that a centralised financing option for all energy supplier best meets the assessment principles identified in this document?*

Summary of responses

Agree	Agree with caveats	Neutral	Disagree with caveats	Disagree	No response / not relevant	Total
7	5	2	1	0	2	17

55. A total of 15 consultees responded to this question and the majority (12) either agreed or agreed with caveats that centralised funding best meets the assessment principles set out in the consultation document. Respondents agreed that this option maintains equity between energy suppliers, allows an amortisation of the cost over time, limiting in year impacts, and removes complexity and risk associated with Supplier of Last Resort (SoLR) and churn events.

56. Of those who agreed with caveats, one MAP suggested that the deployment approach should also be centralised. Another MAP said that they strongly believed any parties undertaking this activity should be appropriately incentivised in order to avoid premature removal of smart meters, hence avoiding unnecessary cost for consumers and negative environmental impacts.

57. Two energy suppliers agreed in principle, subject to transparent financing arrangements. One of them agreed on the assumption that a fair and competitive funding rate be secured. The other said that they would need to be reassured that the benefits of centralised financing would not be outweighed by a finance rate significantly higher than what they could have obtained independently.

58. The third energy supplier who agreed with caveats, suggested that centralised funding should also include costs of wider deployment issues which might arise. They suggested, for example, if an issue emerges as a result of the 4G Communications Hub only exchange which required a particular meter cohort to be exchanged, then the costs of this needs to be covered by the centralised funding arrangements.

59. Two energy suppliers provided neutral responses. Both said that whilst centralised funding appears to meet the majority of the assessment principles, they would need to test the market themselves to find out what financial options are available to individual energy suppliers. One of these energy suppliers was particularly concerned with the lack of competitive tension, stating that once the provider is awarded the funding role, there would be no incentivisation for them to secure improved financing rates.

60. Finally, one MAP disagreed with caveats, stating that the funding model which best meets the assessment principles is one where energy suppliers fund this activity using in-house MAPs or third-party MAPs. They highlighted that this model has been used successfully to install more than 30 million smart meters to date. However, they also acknowledged that this financing model would require asset ownership.

Question 5: *Do you agree with the proposal that a centralised financing option led by the DCC will be the best approach?*

Summary of responses

Agree	Agree with caveats	Neutral	Disagree with caveats	Disagree	No response / not relevant	Total
4	7	3	1	0	2	17

61. There were 16 responses to this question. The majority (11) either agreed or agreed with caveats, saying that this option would be simpler, would make funding more attractive for financiers (only if combining with 4G Communications Hub asset funding), and would protect energy suppliers against SoLR and churn events. Respondents also referenced benefits associated with the DCC's existing ability to recover costs from energy suppliers and track Communications Hub assets.

62. Three MAPs reiterated that funding for 4G Communications Hub assets should be combined with the 4G Communications Hub only exchange activity to ensure better financing rates are achieved.

63. Four respondents who agreed with caveats expressed uncertainty around how the DCC would raise funds and ensure value for money. Two of these energy suppliers specifically called out for increased transparency of the DCC's financing activities, with one suggesting all aspects of the DCC's financial modelling be made transparent to all relevant SEC Parties.

64. Three respondents also raised the importance of ensuring that the DCC do not earn a margin on either the costs of funding or administering this activity.

65. One energy supplier mentioned that any funding arrangements should be transferable to a new licence, given Ofgem's recent decision on the review of the regulatory arrangements to be in place for the DCC following the expiry of the current licence in 2025[26].

66. One energy supplier who agreed that a DCC-led centralised option was the best approach, also said that there was an opportunity for other entities (such as MAPs) to provide economically attractive financing aligned with existing arrangements supporting smart meter installations and asked the Department not to close the door to alternative funding models that may come up at a later stage in the process.

67. One respondent also raised significant concerns with the potential costs of the overall 4G transition, and in particular the cost of financing 4G Communications Hub only exchange activity. They recommended consideration of every funding option available to the DCC in order to minimise costs overall, and suggested a Government funded alternative in order to secure better rates.

[26] Ofgem: DCC Review: Phase 1 Decision

68. One respondent, who provided a neutral response, recognised the positives of a centralised funding model, however they disagreed with some of the rationale for considering that a DCC-led option will be more advantageous than an Alt HAN-led[27] option.

69. Only one respondent, an energy supplier, disagreed with caveats to the DCC providing this service. They highlighted concerns with the DCC's performance delivering the current programme and with the lack of transparency in any of the costs they administer at present.

Opt-Out Option

Question 6: *Do you agree that the opt out option should not be progressed for the reasons set out in this section?*

Summary of responses

Agree	Agree with caveats	Neutral	Disagree with caveats	Disagree	No response / not relevant	Total
8	3	2	2	0	2	17

70. 15 responses were submitted in answer to this question, with the majority (11) agreeing to not progressing an opt-out option. The main reasons given by respondents were in relation to the complexity of implementing an opt-out option, particularly in relation to managing 4G Communications Hub only exchange costs on churn. There were also concerns raised about the risk of introducing unregulated differential pricing and the difficulty of reconciling these differences when recovering these costs which was likely to lead to unfairness.

71. Three respondents agreed with not progressing the opt-out option but caveated their responses based on further information once the centralised price for 4G Communications Hub only exchange activity had been agreed, and called for further details on how costs on churn could be managed in practice in an opt-out option.

72. Two respondents submitted a neutral response, although they stated they could agree with not progressing an opt-out option only if centralised funding was proven to be the cheapest financing option, with all potential options being considered to ensure the lowest cost. One of the respondents suggested financing in tranches with annual reviews (undertaken by either Ofgem or industry).

73. Two respondents (both energy suppliers) suggested that industry might be able to secure funding at a lower rate than the DCC, and although they acknowledged the potential implementation complexities of an opt-out option, they asked that it should be explored further. One of these energy suppliers stated that an opt-out option could be discarded only if the DCC funding was financed at a competitive rate and there was also a cap on administrative costs and those costs were on a non-margin basis. The other respondent suggested that the provision of an opt-out option would incentivise the DCC to offer a value for money alternative that could be taken by all energy suppliers.

[27] Alternative Home Area Network Company (Alt HAN Co) is a non-profit firm run by industry to deliver alternative home area network technological solutions and services to improve consumer access to smart meter services.

Question 7: *If you think that an opt-out option should be available, can you specify the financing arrangements that could be used instead and the benefits of doing so?*

Summary of responses

Agree	Agree with caveats	Neutral	Disagree with caveats	Disagree	No response / not relevant	Total
0	0	5	0	0	12	17

74. Given most respondents thought an opt-out option should not be progressed, only five answers to this question were provided.

75. Of those who agreed that an opt-out option should not be progressed, one MAP suggested that in the event that it did, a blanket opt-out churn contract be mandated for all energy suppliers.

76. Of those who provided a neutral response to the previous question (question 6), one respondent said that if an opt-out option was progressed, those companies securing their own funding arrangements should not expect the DCC to carry out any administration activities in the event of SoLR or churn events on their behalf. The other respondent (an energy supplier) did not specify alternative financing arrangements, but instead reiterated that the central provider should be transparent about the interest rate tendered, the volume of 4G Communications Hubs involved, and the tenure of the finance.

77. One energy supplier who disagreed with caveats to question 6 suggested an opt-out option should be modelled similarly to those arrangements energy suppliers currently have with MAPs. They also suggested that churn contracts be either novate to the DCC or agreed directly with the alternative funder. Another energy supplier who disagreed with caveats to question 6, suggested energy suppliers who choose to opt-out receive an adjustment to either the price cap, or market pricing.

Implementation Issues

Question 8: *Do you see any implementation issues with the preferred option that the Department should consider in advance of a final decision being taken?*

Summary of responses

Agree	Agree with caveats	Neutral	Disagree with caveats	Disagree	No response / not relevant	Total
0	0	15	0	0	2	17

78. 15 responses were received to this question. Three respondents raised concerns regarding the timing of the availability of this centralised funding, stating that the funding arrangements need to be delivered as soon as possible to assist in planning for the 4G transition. Similarly,

two respondents flagged that if the DCC decided to combine the funding activity of the 4G Communications Hub only exchanges with the funding of the 4G Communications Hub assets the decision should be made as soon as possible.

79. Two respondents also noted the volume of work involved in terms of the implementation and agreement of the funding details, and were concerned about adding further activity to the DCC's current remit of responsibilities.

80. Two respondents expressed concern over uncertainties of future licencing arrangements for the DCC and highlighted that any arrangements must be transferable to a new ownership model.

81. Two energy suppliers questioned how accurate the 'centralised price' would be. They were concerned that the value would not accurately reflect the true operational costs of the exchange activity and that the proposal to limit the recoverable costs to a fixed value was flawed.

82. Two other suggestions made by MAPs included issues around the misalignment of the asset life of the replaced 4G Communications Hub and the meter which would not be replaced and called for more data on assets shared with MAPs. One MAP was also concerned with the definition of a successful '4G Communication Hub only exchange' to avoid double payment.

83. One large energy supplier said that the forthcoming 4G transition could be a potential blocker for the successful delivery of the Targets Framework, particularly during the later years (2024 and 2025) as consumers could delay a smart meter installation until a 4G technology was available to avoid a further install visit. The same respondent expected Government to mandate consumers who currently have smart meters to allow a replacement 4G Communication Hub installation.

Funding Process / Payment Mechanism

Question 9: *Do you agree with the proposed "funding process/payment mechanism" suggested in this section? Do you see any implementation issues with the proposal?*

Summary of responses

Agree	Agree with caveats	Neutral	Disagree with caveats	Disagree	No response / not relevant	Total
1	5	1	7	0	3	17

84. 14 responses were received to this question. Just over half of the respondents (seven) disagreed with caveats to an ex-ante payment mechanism whereby the DCC would pay energy suppliers in advance of the 4G Communication Hub only exchange activity taking place. Under half (six) agreed or agreed with caveats, with one neutral response.

85. Of those who disagreed with caveats, it was suggested that an ex-ante payment mechanism would introduce unnecessary complexity and costs, given that payments would be based on forecasts and respondents said that this could lead to commercial 'gaming'. There were also

concerns about the reliability of energy supplier forecasts. All seven respondents suggested an ex-post payment mechanism, saying that it would be simpler and in line with how meter installations are currently funded.

86. One of the energy suppliers said that an ex-post payment mechanism would offer the best balance between ensuring energy suppliers can fund a exchange site visit and maintain the operational status of the installation.

87. Four respondents highlighted the importance of a quick payment process when considering an ex-post mechanism, with suggestions for payments to be made between one and three months post-exchange, and allowance for a reconciliation period.

88. Five respondents agreed with caveats to an ex-ante payment. Of those, one energy supplier raised the importance of developing an effective process of identifying successful 4G Communications Hub only installations using DCC source data. Another respondent, also an energy supplier, said that advance payments would be more favourable if done on an annual basis to help companies' cashflow, however they flagged the potential risk of the impact of the interest rates applied. One MAP suggested that payment should not be restricted to energy suppliers, and that it should be expanded to parties performing the 4G Communications Hub only exchange activity, i.e. installer companies.

89. One energy supplier who agreed with caveats to an ex-ante payment mechanism, suggested that this would be attractive in terms of cashflow but also highlighted the risk of gaming if an organisation were to overstate their forecasts for cashflow advantages. They also suggested an escrow account to mitigate against the risk of energy suppliers going into administration.

90. Only one respondent, an energy supplier, fully agreed with an ex-ante approach as their preferred payment option to deliver the funds for 4G Communications Hub exchange activity. However, they reiterated their concern with establishing a single 'centralised price' as they said that the funding might not cover the actual cost of the work. They suggested a menu of cost profiles be introduced to reflect the varying situational criteria.

91. Finally, one respondent who provided a neutral response suggested an alternative payment mechanism. They suggested a method whereby energy suppliers are paid on receipt of the 4G Communications Hub asset. Upon receipt, an assumption would be made as to how many 4G Communications Hubs will be used for new 4G installations (including meters) compared to 4G Communications Hub only exchanges.

Conclusions

The Provision of Centralised Funding via the DCC

92. We have considered the responses received to question 1 and note that the vast majority were supportive of the need to provide specific funding arrangements to energy suppliers for undertaking 4G Communications Hub only exchange activity, with no respondents disagreeing. The fact that no suitable alternative funding delivery option was suggested in response to question 3 also supports our decision to enable centralised funding arrangements as the best option to provide funding for 4G Communications Hub only exchange activity.

93. There were also suggestions by some MAPs to further extend the 2G/3G service provided by MNOs. As set out in the Government's Joint Statement on 2G/3G Sunsetting[28], MNOs have confirmed to Government that they do not intend to offer 2G and 3G mobile networks past 2033 at the latest. A summary of currently announced plans for when individual MNOs will switch off their individual 2G and 3G networks ahead of this date has been published by Ofcom[29]. The 2033 date itself takes full account of the current SMETS2 2G/3G contract term.

94. The Department has carefully considered the responses received to question 5 in relation to a DCC-led centralised funding option and noted that the majority of respondents either agreed or agreed with caveats. As stated in our consultation document, we are of the view that this solution best delivers all the benefits arising from a centralised funding model and also addresses some of the principles identified by stakeholders as desirable features of a funding framework, particularly in relation to simplicity, deliverability, and value for money. All of these benefits are also in the interests of consumers.

95. Regarding the concerns raised over the DCC's transparency and need for further scrutiny of their financing activities, we are of the view that DCC Licence Condition 16.6A-C (the Business Case process) and 37.8A (Ofgem price control process) provide sufficient control of the DCC's activities. It is our working assumption that in addition to being subject to Ofgem oversight as part of its annual price control considerations and process, depending on the nature of any finance contract being considered, it might also be subject to the arrangements under Condition 16.6A-C of the DCC Licence, whereby prior to entering any finance contract written confirmation of non-objection must be obtained from the Secretary of State. If so, we would require the DCC to engage in adequate informed discussions with industry as part of any Departmental process relating to the financing of the site visit exchange funding. In any event we would expect the DCC to engage with its customers before entering into any such contracts. In addition, measures to provide earlier DCC scrutiny are being progressed by Ofgem's DCC Licence review. In Ofgem's August 2023 Decision Paper[30] they indicated their intent to move to an ex-ante budget setting process for the next Licence.

96. We support respondents' suggestions for increased transparency and expect the DCC to fully engage SEC Parties when developing options for 4G Communications Hub only funding vehicles, where it does not breach commercial confidentialities.

97. There was a suggestion from a respondent around keeping optionality around the levels and sources of funding. We agree that value for money is a fundamental principle to support a centralised funding framework. On that basis, we will work closely with the DCC to ensure that any funding vehicle used minimises the costs to both the Programme and the consumers. We also note the importance for industry to have certainty on funding arrangements to underpin their 4G transition planning work.

98. We also note that some respondents raised suggestions regarding deployment models to deliver the transition to 4G Communications Hubs. As stated in the consultation document, the issue of deployment strategies is outside the remit of this consultation process so any references to these models have not been considered as part of this response. Energy suppliers' individual accountability for maintaining smart services to consumers (via Communications Hub exchange activity) means that they will need to plan how they will undertake and resource this task. At this stage, any change in the deployment model in the smart meter rollout would involve high levels of market intervention, disruption, and

[28] DCMS: A Joint Statement of the Sunsetting of 2G and 3G Networks
[29] Ofcom: Switching off the UK's 3G mobile networks: what you need to know
[30] Ofgem: DCC review: Phase 1 Decision

complexity which we do not consider are beneficial for the Programme or the consumer given the timescales driven by 2G/3G sunsetting.

Assessment Principles

99. Questions 2 and 4 asked consultees about the assessment principles that the Department had considered in the analysis of the centralised funding options set out in the consultation. We noted that most responses received to question 2 stated that they either agreed with our assessment principles and / or had no additions for the Department's consideration. In addition, the majority agreed that centralised funding best meets the assessment principles. Having analysed the responses received, we are of the view that our initial assessment principles were sufficient and appropriate to ensure a fair evaluation.

100. There was one question from an energy supplier concerning the importance placed by the Department on each of the assessment principles. The Department considered that all of these principles/criteria used were of equal importance and no weighting was given to individual assessment principles at the time of analysing funding options.

101. Some respondents suggested the use of four additional assessment principles in the evaluation of funding options including, 'Innovation', 'Environmental, Social and Governance', 'Health and Safety' and 'Competitive Tension'. Whilst we agree that these are also important aspects for consideration, they are already interwoven into Government policy making. As part of our decision-making process, Environmental Principles, Net Zero impacts and General Duties under the Gas Act 1986 and Electricity Act 1989 have been considered. We also agree with the suggestion of 'Competitive Tension', so the market is encouraged to find the best arrangements to minimise costs, but we consider that this element is already captured as part of the 'Value for Money' principle.

Opt-Out Option

102. We analysed the responses received to questions 6 and 7 concerning the progression of an opt-out option for energy suppliers. We note that the majority of respondents either agreed or agreed with caveats to not progressing this option, due to the significant complexities of its implementation, particularly in relation to managing the costs of 4G Communications Hub only exchanges on churn. Currently, industry data flows upon a change of supplier do not include Communications Hub information. Changes to industry data flows in order to implement a new system that monitors Communications Hub data are likely to be complex, costly and time consuming. The DCC has the ability to track Communications Hub ownership data. Centralising the financing process through the DCC will facilitate and enable cross-supplier charging in cases where the 4G Communications Hub has churned either by consumers' active choice or other events such as SoLR.

103. On the basis of the above, the Department's minded-to position remains that an opt-out option for funding 4G Communications Hub only exchanges will not be made available to energy suppliers.

104. We note concerns raised by some respondents on the potential cost of DCC financing, in addition some energy suppliers suggested they could potentially secure better rates through corporate debt. We remain of the view however that providing for an opt-out for these suppliers would be a complex option with significant questions on its value for money. As mentioned in paragraph 95, the Ofgem price control process will be in place to ensure that DCC activities are properly monitored and scrutinised to minimise costs and protect consumers' interests.

Implementation Issues

105. We have considered the responses received to question 8. In addition to the possible implementation issues highlighted in the consultation document, some respondents raised concerns with timing in the delivery of funding arrangements by the DCC. They highlighted the importance that funding arrangements were aligned with the start of 4G Communications Hub exchange activity to ensure deployment strategies could be met. The Department has noted these concerns and is working closely with the DCC, the Regulator and industry to ensure prompt delivery of these 4G Communications Hub only exchange activity funding arrangements, as far as reasonably practicable.

106. There was also a potential issue raised around agreeing the remaining expected life of the SMETS2 meters (which new 4G Communications Hubs are paired with) to ensure asset life alignment of the Communications Hub and meter. The Department acknowledges the potential misalignment, however we do not consider that there is a regulatory solution to address this issue, which is part of the wider commercial decisions that energy suppliers will need to take as part of their deployment strategies.

107. One MAP was concerned with the definition of a successful '4G Communication Hub only exchange' to avoid double payment in the event that the meters were also removed. We are further consulting (see Annex A, consultation on cost recovery arrangements and legal changes) on a mechanism whereby the DCC identifies the exchange of a DCC provided 2G/3G Communications Hub with a 4G Communications Hub and confirms that there are no additions or changes to the Gas or Electricity meters that are associated with the Communications Hub as part of the exchange, which would mitigate this risk.

108. Some respondents were also concerned about the conflict between the delivery of the 4G transition and meeting the installation requirements under the current Targets Framework regime. Some called for consumer obligations to mandate acceptance of a 4G Communications Hub only exchange (or a full meter set in the case of SMETS1) for existing smart meter users. The Department is considering a policy framework to support a 4G transition replacement plan which ensures continuity of smart services after the 2G/3G sunsetting, with a consultation planned in 2024 to test the scope of any potential regulatory regime and the level of ambition required to deliver the 4G transition ahead of 2033.

109. The Department has also commissioned research to understand consumer attitudes to smart metering, addressing the gaps created by the specific requirements of the 4G replacement programme. The research is underway and will take place throughout 2024 and will feed into our policy thinking to understand factors that are likely to encourage or prevent consumers agreeing to the replacement, as well as testing different message framings to encourage consumers to accept their replacement visit.

Payment Mechanism

110. Most responses to question 9 did support an ex-post payment mechanism, whereby an energy supplier is reimbursed on completion of a successful 4G Communications Hub only exchange site visit. Overall, respondents thought that this option was simpler to implement and would incentivise the right behaviours in energy suppliers and avoid commercial gaming. However, they also reiterated the need to ensure that payments took place within three months of a successful Communications Hub only exchange taking place to minimise impact on cash-flows.

111. On this basis, the Department agrees that an ex-post payment mechanism shall be established, whereby energy suppliers are reimbursed on completion of a successful 4G Communications Hub only exchange. Further detail of how this would work in practice, including the definition and identification of a successful 4G Communications Hub only exchange, is now being consulted on (see Annex A).

Other Suggestions Made by Respondents

112. We note the suggestions made by some respondents (MAPs in particular) to combine the funding of the exchange visits with the funding of the 4G Communications Hub assets. As set out in our consultation, the funding of the 4G Communications Hub asset is outside the scope of this consultation. However, as the DCC is currently procuring the financing for the 4G Communications Hub asset, a composite funding option will be considered as part of the overall analysis of funding vehicles.

113. Regarding the small number of SMETS1 meters where the Communications Hub is removable, some respondents suggested that the exchange of Communications Hub only could be explored to avoid early removal of meters. However, to date there has been no appetite from industry to develop a 4G Communications Hub solution compatible with SMETS1 meters. Only a solution for SMETS2 meters is being progressed. In addition, when considering the age of the SMETS1 meters currently installed in Great Britain, we expect that the large majority of SMETS1 meters in both regions (North and Central & South) will need to be replaced with SMETS2 (plus the 4G Communications Hub) ahead of the sunset date in order to maintain connectivity.

114. We expect this consultation response will provide further clarity to industry on the issue of 4G Communications Hub only exchange activity funding. In addition, the consultation on cost recovery arrangements and legal changes (see Annex A) provides industry with further opportunity to input into the detailed implementation of the arrangements. In 2024, we also plan to issue a further consultation on cost benchmarking methodology and an indicative centralised price for 4G Communications Hub only exchange activity taking place from 2025, where industry can once again provide views to inform policy development.

Conclusions

1: We confirm the consultation's minded to position, to require the DCC to provide centralised funding for energy suppliers undertaking 4G Communications Hub only exchange activity.

2: In relation to the payment mechanism, an ex-post mechanism shall be established, whereby energy suppliers are reimbursed on completion of a successful 4G Communications Hub only exchange.

Part Two: Cost Benchmarking Approach

115. A centralised funding approach for installation site visit costs in respect of 4G Communications Hub only exchanges will result in a single reimbursement amount provided to all energy suppliers replacing a 2G/3G Communications Hub with a 4G Communications Hub. The level at which this centralised price is set is of high importance to the successful outcome of the transition from 2G/3G networks to 4G. This reimbursement amount and how it is adjusted over the replacement window period from 2026 to 2033 (via annual reviews) must balance the incentive to actively replace 2G/3G with 4G Communications Hubs with providing value for money in the interest of consumers. This involves balancing the adequate funding of the legitimately incurred costs of energy suppliers on the one hand and taking account of the broader interests of consumers for value for money and not "over funding" exchange site visit costs on the other (recognising that the costs will ultimately filter down to consumers).

116. To achieve this, we need to create a framework for calculating a reimbursement amount that balances these two factors (4G exchange incentive and consumer value for money) and reviewing it regularly over the replacement period. We believe that this framework should consider the following:

- The elements of costs that should be included as part of the centralised price calculation: the "what".
- How the process will work: the "how".
- Who will set up the methodology for the calculation and who will perform the calculation to provide the reimbursement amount and validate it: the "who".

The "What"

Question 10: *Do you agree that the financing provision for 4G Communications Hub only exchange activity should include the cost of a successful exchange and allowance for failure?*

Summary of responses

Agree	Agree with caveats	Neutral	Disagree with caveats	Disagree	No response / not relevant	Total
9	7	0	0	0	1	17

117. 16 responses were received to this question. All respondents (16) either agreed or agreed with caveats that an allowance for failure should be included in the funding provision with respondents recognising that some level of exchange failure will be inevitable and should be accounted for in the calculation of the centralised cost.

118. Of those who agreed with caveats, two respondents suggested that the requirement to include an allowance for failure would depend on the deployment model and consumer

engagement strategies used. Specifically, one respondent suggested that a concentrated, 'street-by-street' approach could remove the requirement to account for failure in the centralised price as failure costs would be significantly reduced using that deployment model.

119. Four respondents said that any failure allowance would need to be tightly controlled with a clear definition of failure to avoid rewarding poor processes and low-quality visits. On the same issue, one respondent emphasised that any failure provision should be an allowance in the price paid for a successful 4G Communications Hub only exchange, and that no specific payment should be made for failed visits themselves, as this could result in higher rates of failure overall and commercial gaming.

120. Another respondent stated that the quality of the Trust Centre Swap Out (TCSO) process associated with replacing Communication Hubs only would be of high importance to mitigating failure rates, and ensuring that installers achieve best outcomes for consumers and that the funding provision does not drive poor behaviours amongst installing parties.

Question 11: *Do you have a view on what percentage rate of failure may be appropriate for 4G Communications Hub exchange activity?*

Summary of responses

Agree	Agree with caveats	Neutral	Disagree with caveats	Disagree	No response / not relevant	Total
0	0	16	0	0	1	17

121. There were 16 responses received to this question. We have categorised all the responses as "neutral" as the question was a request for input rather than agreement or disagreement with a suggested position.

122. 11 respondents suggested that there was insufficient evidence available to make a recommendation as to the likely failure rate, as the outcome of the TCSO activity is not yet known and there is a lack of operational experience in this front.

123. Seven respondents did suggest that current failure data gathered from traditional to smart exchange activity could be used as a reasonable proxy, in the absence of actual data on Communications Hub only exchanges. However, one respondent said that it was unclear whether proxy information could be used, with another respondent saying that they expected Communications Hub exchange failure rates to be 'considerably lower' than failure rates for rollout installations.

124. Four respondents referred to TCSO processes as the main source of information to gather data to allow the calculation of failure rate. Two respondents referred to the opportunity to gather useful input data as part of the TCSO trials taking place in late 2023 and early 2024, as well as existing energy supplier experiences of the TCSO process.

125. Three responses discussed the importance of consumer attitudes towards 4G Communications Hub only exchanges, and their importance in defining failure rates given that a reasonable proportion of failure will be due to customer reasons. One response referred to the possibility of splitting the costing approach between premises where a

customer needs to provide access and those that do not (for example customers with outside meter boxes for their electricity meter).

126. One respondent said that if a different deployment approach was to be used then failure rates could be significantly reduced. They argued that failure rates could be very low if a street-by-street deployment model was used.

Question 12: *Do you agree that only the proposed costs (i.e. the cost of the visit to successfully replace a 2G/3G Comms Hub only with a 4G Comms Hub; an allowance provision to account for unsuccessful visits; and the cost of financing) should be included in the provision of finance?*

Summary of responses

Agree	Agree with caveats	Neutral	Disagree with caveats	Disagree	No response / not relevant	Total
2	2	0	11	0	2	17

127. There were 15 responses received to this question. Of those that responded, two agreed, a further two agreed with caveats, and the majority (11) disagreed with the position set out in the consultation.

128. Of those that agreed, but with caveats, one suggested that there will be a large variation in cost between different premises and therefore a single value may not be appropriate to fund all 4G Communications Hub only exchanges. However, they agreed that the cost of the successful exchange and an allowance for failure are the correct elements to include in the calculation of the payment. The second respondent that agreed with caveats stated that their agreement to our proposal depended on the definition of failure rate and on the current installation being unaffected by that failure.

129. Of the respondents that disagreed with the proposed cost elements, none suggested that the cost of a successful exchange and an allowance for failure should not be included, but they said that additional elements should also be included in the centralised price.

130. Nine respondents suggested that provision should be made for consumer engagement costs (for example to make appointments for Communications Hub only exchanges) as this engagement would be different from the current approach to secure bookings for full installations. Three respondents made specific reference to price cap allowances and the need for consumer engagement costs to be included within the price cap if left outside the calculation of the centralised price.

131. Seven responses said that reverse logistics[31] costs should be included in the calculation of the cost allowance. Similarly, three responses said that forward logistics[32] and warehousing costs should also be included in the overall price for 4G Communications Hub only

[31] Refers to the process of energy suppliers returning 2G/3G Communications Hubs back to the DCC. Returned assets may then be refurbished or disposed of by the DCC (subject to relevant waste and recycling regulations).
[32] Refers the to the logistics activities undertaken by energy suppliers between receipt of the Communications Hub asset from the DCC to the point of installation in a consumer premise. This may include activities such as warehousing, transport of assets to distribution centres, distribution of assets into the field etc.

exchanges on the basis that all costs included in the exchange activity should be covered by any funding.

132. Two respondents suggested that any Premature Removal Charges (PRCs)[33] associated with the removal of 2G/3G Communications Hubs should be included in the value of any funding provision as these charges would also be an important element arising from the exchange activity. However, one of the respondents suggesting the inclusion of PRCs did accept that more information about the scale of the expected charges would be required before a final decision was made.

133. One response suggested that the funding provision should cover all Communications Hub exchanges where a 2G/3G Communications Hub is replaced with a 4G Communications Hub and not only where the meter is not exchanged. They explained that extending the funding in this way would simplify tracking and potentially reduce consumer inconvenience overall as fewer visits would be required.

134. One supplier suggested that there may be future, hidden costs, that are not currently clear to industry and that suppliers will need to bear as part of the 4G Communications Hub only exchange activity. On this basis, they suggested that the cost elements included in the calculation of the centralised price needed to be flexible in order to include future costs when they become known. They suggested an ex-post mechanism for claiming back these unidentified costs.

135. Two respondents suggested that using installer workforces with a different, narrower skill set from the one currently used for meter installations may allow overall costs to be reduced.

The "How"

Question 13: *Do you agree that there should be an initial calculation for the cost of Communications Hub only replacements using a determined methodology and industry data and then, that amount should be reviewed annually during the period of 4G upgrades?*

Summary of responses

Agree	Agree with caveats	Neutral	Disagree with caveats	Disagree	No response / not relevant	Total
11	3	0	0	1	2	17

136. There were 15 responses to this question. Of these, the vast majority (14) agreed or agreed with caveats, and one disagreed with our proposal for annual reviews of the centralised price. In general, respondents felt that annual reviews will be the right frequency and will allow the stability that the industry requires.

[33] Premature Removal Charge (PRC) refers to a charge applied by the financing organisation on the energy supplier when a smart meter device or a Communications Hub is removed before an agreed period, which normally corresponds with the commercial life of the device.

137. Four respondents highlighted the potential for inflation over the period and the need to review the funding provision to ensure that it remained in line with market conditions. Two of these responses also suggested that potential efficiencies in the exchange activity could be achieved over time and therefore funding allowance would need to be adjusted to reflect these.

138. Two respondents caveated their responses by suggesting that annual reviews were not frequent enough and there should be a more regular review process, although one of these respondents acknowledged that more frequent reviews should not entail an administrative burden on industry and recognised that more frequent reviews could be difficult to respond to adequately.

139. One energy supplier disagreed with a single centralised price for 4G Communication Hub only exchange activity. Instead, they suggested a menu of cost profiles to reflect an agreed set of criteria in setting out a range of charges.

Question 14: *Do you have views on the relevant industry data that should be considered as part of the initial cost establishment and the subsequent review processes?*

Summary of responses

Agree	Agree with caveats	Neutral	Disagree with caveats	Disagree	No response / not relevant	Total
0	0	12	0	0	5	17

140. There were 12 responses to this question. All responses were categorised as “neutral” as the question asked for input from stakeholders rather than views on a specific policy proposal.

141. Seven of the 12 responses recommended that engineer/installer costs be taken into account when setting a centralised cost provision, whether that be a fully trained meter operative or a lower skilled engineer, depending on the outcome of considerations regarding the required skillset for Communications Hub only exchanges.

142. Four responses recommended considering job times or the amount of time installers are on site to complete the exchange, and three suppliers said travel times should also be taken into account given the impact on productivity.

143. Three respondents said that customer marketing and appointment booking costs should also be taken into account.

144. One respondent mentioned that all the required data for calculating a centralised cost is already collected by either Ofgem or by the Department and therefore further data collection is unlikely to be necessary.

145. Two respondents suggested that exchange visit costs may vary geographically, and these variations should be considered when calculating a centralised price. This is due to varying levels of customer density, installer wages, and travel time by region.

146. A further two responses suggested that the meter location (within the consumer premises) should also be taken into account, with one respondent saying that for meters and

Communications Hubs located in outdoor meter boxes the exchange activity was likely to be considerably cheaper than for those meters and Communications Hubs located inside a consumer's home, due to ease of access.

The "Who"

Question 15: *What are your views on who should be responsible for setting the optimal value for Communications Hub only replacement visits, and keeping this price updated during the period of 4G upgrades?*

Summary of responses

Agree	Agree with caveats	Neutral	Disagree with caveats	Disagree	No response / not relevant	Total
0	0	15	0	0	2	17

147. There were 15 responses to this question. These responses have been classified as "neutral" as we were asking for views in an open question rather than responses to a specific proposal.

148. 13 of those who responded suggested that Ofgem would be well placed to carry out this work. The main reasons given were Ofgem's independence as the Regulator, their expertise and prior experience in price control calculations and methodologies, their ability to access existing information and collect new data from industry. One respondent also highlighted that Ofgem will be part of the enduring Smart Metering Programme governance so there would be no requirement to transition this element in future should Ofgem be responsible from the outset.

149. Respondents were broadly in agreement that the process should be independent from industry parties and from the DCC, and that it should be open and transparent so that stakeholders could easily interrogate/challenge the process and any cost value resulting from this process. Respondents also recognised that the data required to feed into this process is likely to be commercially sensitive and, on that basis, it would need to be handled as such.

150. Seven respondents suggested that the Department would also be well placed to be responsible for this activity, either as an alternative to or in collaboration with Ofgem. Respondents recognised that the Department also has price control/ benchmarking expertise as well as a developed ability to collect and process industry data. However, one respondent suggested that the Department should not be responsible for this activity as the enduring governance arrangement for the Programme would be transferred to the Regulator in the future, and with this, the responsibility to calculate and review the centralised price would need to be transferred too.

151. Two respondents also suggested the SEC Panel[34] as an option for setting the value of the funding provision, with one respondent suggesting that SEC Panel sets the initial price before passing to Ofgem for the process of ongoing review.

[34] The Smart Energy Code (SEC) Panel is responsible for managing the Smart Energy Code (SEC). Its prime objectives are to ensure that the SEC is managed in a way that is efficient, fair, and does not discriminate between Parties or classes of Parties.

152. One respondent suggested the Retail Energy Code Company (RECCo)[35] would be a possible alternative to other bodies, but they did not support it ahead of Ofgem or the Department.

153. Three respondents specifically said that they did not think the DCC should be responsible for the calculation of the central price. One mentioned that they felt it would conflict with their role as funding providers, while another respondent suggested that it would not be appropriate for the DCC to collect commercially sensitive data from industry parties as this would entail a new role for the DCC, outside their current remit of responsibility.

Conclusions

The "What"

154. We have considered the responses received to question 10 and can confirm that the details of the methodology to calculate the reimbursement amount, and the cost elements to be included in the centralised price calculation will be consulted upon separately during 2024. The specific decisions required to define the funding provision and its make-up will be deferred until then so they can be considered on a more holistic basis with relevant evidence. However, we currently anticipate that the cost of the exchange site visit and an allowance for failure is likely to continue to make up the key elements of the funding provision.

155. In response to question 11, as mentioned above, the details of cost elements to be included in the calculation of the centralised price for the Communications Hub only exchange funding provision will be consulted upon separately in 2024. This will include the collection and analysis of relevant industry data to determine an acceptable allowance for failure into the calculation.

156. Regarding the responses received to question 12, the Department recognises that most respondents believe that a number of additional cost elements should be taken into account when calculating a centralised price for the 4G Communications Hub only exchange activity, notably those regarding consumer engagement and reverse/forward logistics. In addition, we recognise that not all information is currently available to identify the scale of some of these costs and that further work will need to be done to identify and define them.

157. As previously mentioned in the consultation document, the scope of the centrally provided funding needs to ensure that only key components of deployment cost are considered and are adequately covered to minimise possible cash flow impacts on energy suppliers.

158. While it is clear industry would welcome additional cost elements being included in any centralised price calculation, the Department believes that any additional costs should only be considered after clear and robust evidence has been identified and provided to support their inclusion. As such, we propose deferring a decision on the cost elements that will be included in the calculation of the centralised price for 4G Communications Hub only exchange activity to the future consultation that we expect to issue in summer 2024.

The "How"

159. Given that the vast majority agreed to question 13, the Department confirms its minded to position of an initial calculation for the cost of Communications Hub only exchanges using an

[35] RECCo: Building a retail energy market fit for the future

agreed methodology (subject to consultation) followed by annual reviews during the period of 4G exchanges (expected at scale from 2026 to 2033).

160. In response to the suggestion to have a range of set charges rather than a single centralised price, we are of the view that this would introduce further complexities and potential costs to the process and therefore do not agree this approach. The proposed periodic review of the single centralised price aims to take into account changes to costs over time (which may go up or down) and we should expect efficiencies to be achieved.

161. The details of the methodology to calculate a reimbursement amount to fund the 4G Communications Hub only exchange activity and the cost elements included in this calculation will be consulted upon separately in 2024. Preparation work for that consultation will involve the identification, collection, and analysis of industry data to determine relevant cost elements and an acceptable input for failure allowances into the calculation.

The "Who"

162. We have carefully considered the responses received to question 15 regarding which body should be responsible for setting the centralised price and subsequent annual reviews. We note that most responses cited Ofgem as being best suited to undertake this activity, while there was also support for DESNZ's involvement. We also note the suggestion that if Ofgem were to take responsibility from the onset, there would be no need for a transitional requirement once the programme is transferred in full.

163. Whilst we acknowledge the suggestions for other organisations such as the SEC Panel and RECCo to undertake this activity, we note that these were possible alternatives rather than respondents' main suggestion. The Department is of the view that given the likely scale of funding involved, we consider it unlikely that a party without consumer protection duties would be suitable to making reimbursement amount determinations. We agree with the two suggestions that it would not be appropriate for the DCC to undertake this activity given potential conflicts of interest and recognising this work would be beyond the organisation's current expertise.

164. We agree with stakeholders' calls for a process which is open and transparent so that stakeholders can understand the calculation methodology and the proposed centralised price, which is why we plan to consult on this further in summer 2024.

165. Given the above, we have decided that the responsibility for formulating an appropriate methodology, and setting the initial reimbursement amount will be undertaken jointly by DESNZ and Ofgem working in close collaboration. Ownership of annual reviews will be transferred to Ofgem exclusively on an enduring basis, at a date yet to be determined, subject to the wider Smart Metering Implementation Programme transition.

Conclusions

3: We confirm that DESNZ and Ofgem will jointly establish an initial methodology for calculating the centralised price. DESNZ and Ofgem will also jointly set the initial centralised price and undertake subsequent annual review(s). Ongoing annual reviews will be transferred to Ofgem solely, at a point in time yet to be determined. The initial methodology for calculating the centralised price, including the details of how annual reviews will be performed, will be subject to a joint DESNZ and Ofgem consultation planned for summer 2024.

4: A decision on the cost elements to be included in the centralised price calculation will be deferred to later in 2024, following consultation on the cost benchmarking methodology and indicative centralised price. Any additional costs to be included in the calculations will need to be justified by relevant evidence provided in response to the consultation.

Part Three: Recovery of Costs

166. During the industry engagement issued in June 2023, several options were proposed for how the DCC might recover the costs of funding associated with 4G Communications Hub only exchange activity. A number of "underlying assumptions" that the Programme thought was important to consider when assessing the various options were proposed. These were that:

- The costs should not be recovered from premises that fall outside the smart metering rollout mandate (i.e. they should only be recovered from premises that are Domestic Premises[36] or Designated Premises)[37].
- The costs should not be recovered from suppliers in relation to premises at which Advanced Meters have been installed in accordance with the provisions of the Energy Supply Licences.
- The costs should be recovered from energy suppliers, since the responsibility for installing and replacing smart metering equipment remains with energy suppliers.
- Whichever energy suppliers are charged in relation to a particular premises, the charges should switch to the new supplier of the premises when a change-of-supplier (including any SoLR) event occurs. This avoids the supplier who undertakes the exchange, or any other incumbent supplier in respect of the premises at the time of the exchange, being stranded with the costs on change-of-supplier. We thought contrary solutions would be anti-competitive and disincentivise timely 4G Communications Hub only exchanges.

167. Part C of Condition 18 of the DCC Licence sets out the "Relevant Policy Objectives" for how charges for DCC services should be recovered. In particular, the second objective includes a requirement that the charges do not distinguish (either directly or indirectly) between consumers within Great Britain on a geographic basis. Whilst the existing DCC charging objectives remain relevant when considering how the DCC should charge for the funding costs of 4G Communications Hub only exchanges, several "evaluation criteria" were set out:

- Charges should not disincentivise the timely, pre-emptive exchange of 4G Communications Hub only exchanges.
- Funding costs should be recovered in such a manner that does not affect economic decisions over whether to replace other assets at the site at the time that the 4G Communications Hub only exchange is made.
- Consideration should be given to replicating the arrangements that would have applied had a MAP financed the costs of the exchange site visit.
- Options which can most readily be extended to apply in respect of the North region (in the event that 4G Communications Hub only exchange funding is also needed there) should be favoured.
- Whatever solution is reached, it should be objectively fair.

[36] A 'Domestic Premises' is defined in the SEC as premises at which a Supply of Energy is or will be taken wholly or mainly for domestic purposes, which is to be interpreted in accordance with Condition 6 of the relevant Energy Supply Licence.
[37] A 'Designated Premises' is defined in the SEC as a Non-Domestic Premises defined as Designated Premises within the meaning given to that expression in the Electricity Supply Licences or the Gas Supply Licences.

168. We therefore proposed three charging options, some with sub-options and invited comments. The Department did not offer a minded to position regarding these options. In essence these were that:

Option 1 – That costs should be recovered from sites at which a 2G/3G to 4G Communication Hub only exchange had taken place.

Option 2 – That costs should be recovered on some form of market share basis (either a GB-wide or only Central and South.

Option 3 – That the costs should be recovered from sites that had either received a 4G Communications Hub only exchange, or sites that needed a 4G Communications Hub only exchange.

Analysis of Charging Options

Question 16: *Do you agree with the analysis of the charging options set out above?*

Summary of responses

Agree	Agree with caveats	Neutral	Disagree with caveats	Disagree	No response / not relevant	Total
7	2	1	1	0	6	17

169. A total of 11 responses were received to this question, with the majority agreeing with the Department's analysis of charging options.

170. Two respondents caveated their agreement, one by stating that they believed it was important that the arrangements did not result in cross subsidisation between energy suppliers, and that creating winners and losers should be avoided. The second, whilst agreeing with the analysis of the charging options, reiterated their response to an earlier question and stated that they did not believe that the operational delivery method was being adequately considered and that instead believed a centralised supplier-agnostic replacement programme should be considered.

171. One MAP did not fully agree with the analysis of the advantages and disadvantages of the various options set out. They did not agree that it may be unfair for the cost to be shared with SMETS2 meter customers with a new installed meter set and 4G Communications Hub. They stated that if the cost is not shared across all SMETS2 meter customers then this will unfairly penalise those energy suppliers, and customers, that have had an earlier installation of SMETS2 meters as they would then be subject to a higher overall charge. This could potentially drive adverse outcomes with possible delays in smart installations until 4G Communications Hubs are available for installation.

Question 17: *What is your preferred charging option?*

Summary of responses

Agree	Agree with caveats	Neutral	Disagree with caveats	Disagree	No response / not relevant	Total
0	0	11	0	0	6	17

172. 11 respondents answered this question. Option 1 was preferred by five energy suppliers and one MAP. Option 2 was preferred by two energy suppliers and one MAP (with two explicitly specifying that this should be on a GB market share basis – option 2b). One MAP suggested either option 1 or 3A. Seven respondents did not express a preference for a charging option.

173. Those preferring option 1 said that any potential disincentive to undertake early 4G Communications Hub only exchanges could be offset by overarching 4G targets set by the Department and Ofgem. Another argued that the Government was overstating the disincentive to replace under option 1, since it is in energy suppliers' interests to have working smart metering systems. Two energy suppliers suggested that option 1 gave the best incentive for early exchange.

174. Those respondents preferring option 2 did so because they were supportive of an option which avoids penalising sites at which early exchanges took place. Another said that this option was consistent with the GB charging objective of DCC and argued that if not charged on a GB basis, there are negative reputational and fairness implications.

Implementation Issues

Question 18: *Do you think there are any practical implementation issues with any of the options identified?*

Summary of responses

Agree	Agree with caveats	Neutral	Disagree with caveats	Disagree	No response / not relevant	Total
0	0	6	0	0	11	17

175. Only six respondents provided relevant answers to this question. One energy supplier highlighted a potential negative reputational and fairness implication if market-share is not calculated on a GB wide basis. They said this would cause price recovery not being spread equally across the geographic element of the price cap.

176. Another energy supplier said that there were challenges with all options, for example, taking the disproportionate portfolio make up of some energy suppliers into consideration could lead to incentive burdens being felt by some and not others.

177. Option 3 was called out as potentially leading to increased administration charges, and option 1 highlighted as potentially having the unintended consequence of delaying the 4G rollout.

178. One energy supplier said that whichever option is chosen, consumer engagement would present the most significant challenge.

179. Finally, one respondent said that further work should be carried out to establish the detailed extent of system changes and costs associated with different cost recovery mechanisms prior to a decision being taken on cost recovery options.

Alternative Options

Question 19: *Do you think there are any sensible alternative options that have not been identified, and if so, what are they?*

Summary of responses

Agree	Agree with caveats	Neutral	Disagree with caveats	Disagree	No response / not relevant	Total
0	0	5	0	0	12	17

180. There were five responses received which were in scope of this question. One energy supplier suggested that all costs associated with 4G Communications Hub only exchange activity should be included in DCC's fixed charges, arguing that both electricity Distribution Networks and Other Users will benefit from continual data from smart metering and should therefore contribute to the 4G rollout.

Conclusions

181. Further to issuing the consultation, in light of the consultation responses, and following discussions we have held with the CTG, we have reconsidered the overall rationale behind our original proposals.

182. As it stands, the underlying costs of providing communications services differs between each DCC Region. Nevertheless, the DCC's charges are not geographically differentiated and as a consequence the Fixed Communications Hub Charges and Fixed Charges are the same across all regions of Great Britain. Whilst the incremental costs to DCC of providing and serving Communications Hubs are recovered through Fixed Communications Hub Charges, the fixed costs associated with the communications contracts are recovered via DCC Fixed Charges. In addition, the costs of SMETS1 migration is also recovered through DCC Fixed Charges, and again there is no differentiation between the way in which DCC recovers its Fixed Charges as between sites with a SMETS1 or a SMETS2+[38] installation[39].

183. Our minded to position is that the costs of exchange site visits should be considered to be a fixed cost of maintaining the DCC's Wide Area Network (WAN) service, and that like other

[38] SMETS2+ means a device which is not a SMETS1 device.
[39] It is noted that Fixed Communications Hub Charges do not apply in relation to SMETS1 installations, because the DCC does not provide the Communications Hubs for them.

costs of this nature, they should be recovered via DCC Fixed Charges on a non-geographically varying basis.

184. Another factor in reaching this proposed approach is the differentiation between funding and financing of the site visit costs (as referred to previously in paragraphs 35 and 36). Whilst Government has decided that 4G Communications Hub only exchange site visit costs should be funded, there is a separate decision on whether the costs should also be financed by the DCC. We are proposing to ensure that the DCC engages in adequate informed discussions with industry as part of any process relating to the financing of the exchange site visit funding. It is our working assumption that in addition to being subject to Ofgem oversight as part of its price control considerations, depending on the nature of any finance contract being considered, it might also be subject to the arrangements under Condition 16.6A-C of the DCC Licence, whereby prior to entering into any finance contract, written confirmation of non-objection must be obtained from the Secretary of State. If so, we would require the DCC to engage in adequate informed discussions with industry as part of any Departmental process relating to financing of exchange site visit funding. In any event, we would expect the DCC to engage with its customers before entering into any such contracts.

185. This means that whilst the Government has now decided that the 4G Communications Hub only exchange site visits should be funded by the DCC, this does not equate to a decision that the funding should be financed, which needs to be considered separately. To the extent that it is decided to finance these costs, our view is that the charging basis for the recovery of these costs ought to be the same as the charging base were the costs not to be financed. We do not, however, consider that all the options we put forward in the July 2023 consultation are robust if no financing arrangements are put in place.

186. In particular, we consider that option 1 (where costs are recovered from sites at which an exchange has taken place) would be an unsuitable charging basis in circumstances where the costs are not financed. This is because, without financing, the DCC would need to set its charges to recover the costs of exchange site visits in any particular year within that same year. This would mean that under option 1 (assuming perfect foresight) the total costs of site visits funded by the DCC in the first year would be funded from sites at which an exchange had taken place in that year. Consequently, if the consumer switched supplier any time after the first year, the relevant supplier would be effectively stranded with the costs of the site visit. Taking an extreme hypothetical example, if a supplier had a single customer at whose premises it replaced the Communications Hub in the first year of this service, and the DCC had perfect foresight in charge setting, the DCC costs of compensating the supplier for the exchange site visit would be recovered from that supplier within the first year. If the consumer then changed supplier after the first year, the suppler would have no consumers from whom to recover any outstanding site visit costs. It is also the case that under option 1, the DCC cost recovery would commence at sites from the point in time when the exchange site visit had been completed, and (as was discussed with the CTG) it is therefore possible that option 1 might deter timely replacements.

187. If the costs are recovered via Fixed Charges, we recognise that (as things currently stand) this would mean that a small proportion of the costs (currently estimated at around 6%) would be recovered from electricity Network Operators. However, we think that this is consistent with treating the costs as a fixed cost of establishing the DCC WAN.

188. Whilst a majority of consultation respondents supported option 1, we believe that recovering via Fixed Charges would better reflect the treatment of other fixed costs of the DCC WAN; not deter timely replacements; and be a more robust solution in circumstances where there is no central financing of the costs.

Conclusion

5: We are further seeking industry views on a minded to position to recover costs via DCC Fixed Charges on a GB-wide basis, see Annex A.

Annex A: Further Engagement on Cost Recovery Arrangements and Legal Changes

Background

1. In December 2021, Mobile Network Operators (MNOs) confirmed they do not intend to offer 2G and 3G mobile networks past 2033 at the latest[40]. After this date, any Communications Hubs operating on these networks will lose connectivity and associated metering equipment will lose communication dependent smart functionality. Therefore, either the whole smart metering system (for SMETS1 meters) or the existing 2G/3G Communications Hub only (for SMETS2 meters in the Central and South regions) will need to be exchanged in advance of this date.

2. In the first half of 2022, preliminary work undertaken by the Programme looking at the 4G transition identified a key strategic issue related to the gap in how 4G Communications Hub only exchange activity undertaken by energy suppliers would be funded. Funding for costs associated with a 4G Communications Hub only exchange site visits are not covered by existing Meter Asset Provider (MAP) commercial arrangements as no meter is being installed or exchanged. The funding arrangements for site visit costs would therefore fall to energy suppliers.

3. Energy suppliers being solely responsible for meeting the financing costs of 4G Communications Hub only exchange activity posed three challenges: firstly, the high capital cost of exchange site visits risked some suppliers being unable to fund the activity through a lack of access to the required finance facilities, this is likely to disproportionately affect smaller energy suppliers. Secondly, the requirement for suppliers to finance themselves may act as a disincentive to undertake 4G Communications Hub only exchanges, causing suppliers to delay replacement and put the delivery of the exchange activity at risk. Thirdly, as there are no industry mechanisms for managing the costs of 4G Communications Hub only exchanges on churn then suppliers who replaced Communications Hubs and then lost the premise on churn to another supplier would be left with the sunk cost of that installation, potentially making them less competitive.

4. The 4G Communications Hub only exchange activity financing consultation[41] was published on 20 July 2023, whereby we sought views on options for funding site visit costs, the cost benchmarking approach, and the method by which these costs can be recovered. There were 17 responses in total, mainly from large energy suppliers and MAPs. This consultation document constitutes an Annex to the response to that consultation.

Proposals

5. In order to require the DCC to provide centralised funding for 4G Communications Hub only exchange activity to energy suppliers that undertake exchanges, we propose amending the

[40] DCMS: A Joint Statement of the Sunsetting of 2G and 3G Networks
[41] DESNZ: 4G Communications Hub only exchange activity funding consultation

DCC Licence and the main body of the Smart Energy Code (SEC) to support this. We welcome consultees' views on the draft legal text for this (outlined in Annexes A.1 and A.2).

DCC Licence Changes

6. We are proposing to change DCC Licence Condition 17 and introduce a new DCC service called the Communications Hub Replacement Reimbursement Service. This service is defined at a high level in the DCC Licence, with further detail set out in the SEC. In particular the new service is reflected in a new Part E1 of Condition 17.

Cost Benchmarking

7. A centralised funding approach for installation site visit costs in respect of 4G Communications Hub only exchanges will result in a single reimbursement amount provided to each energy supplier replacing a 2G/3G Communications Hub with a 4G Communications Hub. A new "Appendix 2" has been added to Condition 17 which sets out the arrangements relating to the methodology for determining the reimbursement amount for each Regulatory Year.

8. Under Appendix 2 we are proposing that the Department and Ofgem jointly determine a methodology, and then jointly apply that methodology to calculate the reimbursement amount. The legal text drafting also provides for a consultation on the draft methodology to have taken place before the methodology takes legal effect. A DESNZ and Ofgem joint consultation is therefore planned for summer 2024.

9. The drafting of the legal text also provides for DESNZ and Ofgem, from time to time, to jointly determine if any changes are needed to the methodology, and after taking into account consultation comments, then jointly apply that new methodology to calculate a new reimbursement amount.

10. The legal text also provides that the methodology for establishing the reimbursement amount will include making an allowance for unsuccessful replacement site visits and the flexibility to include other reasonable expected costs associated with 4G Communications Hub only exchange site visits.

11. Finally, the drafting of the legal text allows for DESNZ to pass on sole responsibility to Ofgem for determining any changes to the methodology and applying that in calculating a new reimbursement amount.

Consequential Changes

12. We are also proposing the following consequential changes to the DCC Licence:

- Change the definitions set out in Condition 1, to reflect the new service as an additional Enabling Service, and an associated consequential change to Condition 6.6 which relates to the authorised business of the Licensee.
- A change to Condition 22.21 to reflect that the detail of the new service will be set out in the SEC.
- A consequential change to Condition 30.17 relating to requirements for the regulatory accounts.

- A change to Condition 35.5 to clarify that the sum of the Reimbursement Amounts form part of DCC's External Costs and to introduce a new definition for the purposes of the price control conditions.

SEC Changes

Section A - Definitions

13. We are proposing to introduce several additional definitions in Section A of the SEC, linking the service back to the provisions in the DCC Licence and to support the additional SEC provisions we are proposing. This includes making changes to the definition of 4G Design, Build and Testing (DBT) Finance Facility such that if any financing arrangements are established in relation to the new service they will be included within this definition (and consequently treated as such elsewhere in the SEC). The underlying objective of this aspect of the financing arrangements is to afford additional assurance for financiers over DCC revenues in order to help minimise the costs of any financing.

Section F – The New Service

14. Communications Hub Replacement Reimbursement Service - We are proposing to introduce a new Section F14 of the SEC which deals with the new Communications Hub Replacement Reimbursement Service. The service applies in respect of Regulatory Years in which a Communications Hub Replacement Reimbursement Amount has been determined under the methodology set out in Appendix 2 of Condition 17 of the DCC Licence. The amount of reimbursement applicable to any particular Regulatory Year is the amount determined in accordance with the methodology.

15. Successful Replacement Events – We have set out the proposed definition of Communications Hub Replacement Reimbursement Event in F14.4. As part of this we are proposing that a replacement would not fall into this definition if an Energy Meter has been replaced as part of the site visit. The SEC definition of Energy Meter includes either a Gas Meter or an Electricity Meter. These definitions in turn refer to a relevant meter that is used for the purposes of determining the quantity of energy supplied to the premises. This means that the replacement of any non-boundary point meter, such as an asset meter, as part of the site visit would not disqualify the visit from attracting a reimbursement.

16. Energy Supplier Forecasting - In Section F14, we have also provided flexibility for the DCC to require energy suppliers to provide forecasts of the number of 4G Communications Hub only replacements that they intend to make in any given time period. We have required the DCC to act reasonably in asking for any such forecasts, but we envisage they might need them for purposes of price-setting or for managing within year cashflows.

17. Payment Process - The proposals provide that the DCC will be liable to pay energy suppliers for each Communications Hub Replacement Reimbursement Event. The payment amounts would be determined monthly in arrears and would be netted off the amount owed by the energy supplier to the DCC. Where this results in a net debit from the DCC to an energy supplier the amount would need to be paid by the DCC within 10 days of the end of the month, i.e. in the same timescales as apply to recovery of the DCC costs. Provision is also made for restitution in the event that any erroneous payments are made.

18. Smart Metering Inventory (SMI) Status - It is hoped that the vast majority of Communications Hub Replacement Reimbursement Events would be automatically detected by the DCC each month using the information it has available to it. One specific edge case we have considered is that in which one or more Smart Meters have been installed in a premises, but the energy

supplier has (for whatever reasons, e.g. WAN issues) been unable to join the meters to the Communications Hub. In such situations where the energy supplier has not updated the SMI Status of the meters to 'Installed Not Commissioned' and therefore associated them with the Communications Hub, the DCC does not 'know' about them, and consequently if those meters are commissioned as part of a 4G replacement, the DCC will identify them as being newly installed. To minimise this, we encourage energy suppliers to update the SMI (in advance of the exchange site visit) using SR 8.4 ('Update Inventory') in such circumstances to change meter status from 'Pending" to 'Installed Not Commissioned' and avoid this issue, and the need to claim via the out of band process detailed below.

19. Out of Band Payment Process - We are also proposing that the DCC will establish arrangements whereby energy suppliers can submit claims for Communications Hub Replacement Reimbursement Events in circumstances where they have, for whatever reason, not been identified by the DCC. In such circumstances reasonable evidence would need to be submitted by the energy supplier for the DCC to process the claim.

20. We are also proposing provisions that:

    - Require energy suppliers to check the monthly payments and to report any errors to the DCC for rectification.
    - A requirement on the DCC to provide each energy supplier with a monthly report setting out information on the payments that have been made and the associated MPxN(s).
    - For the SEC Panel to be able to appoint an independent auditor to audit the payments that have been made to one or more energy suppliers, including where requested to do so by Ofgem, and for energy suppliers to cooperate with any such audit.

Section J - Charges

21. We are proposing that, to the extent any financing is established for the Communications Hub Replacement Reimbursement Amounts, this would be treated under the SEC as an extension of the 4G DBT Financing. In developing the changes, we identified that changes were additionally needed in Sections J1.2 and J1.7 to ensure that 4G DBT Finance Charges are treated in the same way as the existing Communications Hub Finance Charges in those sections. We are therefore proposing to both, make changes to how 4G DBT Finance Charges are treated and to extend these changes also to apply to any financing that might be established for Communications Hub Replacement Reimbursement Amounts.

Section K - Charging Methodology

22. As mentioned in Part Three of our response to the consultation on 4G Communications Hub only exchange activity funding, in light of the consultation responses, and following industry discussions, we are now consulting on a minded to position whereby costs are recovered via DCC Fixed Charges on a Great Britain-wide basis. Our reasons for this are explained in more detail in Part Three of the consultation response document.

23. In Section K, we are proposing additional obligations on the DCC to forecast the aggregate revenues it will need to recover to support the service in each Regulatory Year for the purposes of setting its charges.

24. Finally, we are proposing to require the DCC to identify the total amount of the Estimated Communications Hub Replacement Reimbursement Revenue.

Next steps

25. This consultation will remain open until 5pm on Friday 12 April 2024. Once it has closed, we will review the comments submitted in response to the consultation and will aim to publish our conclusions in summer 2024.

26. After taking into account the responses to this consultation on cost recovery arrangements and legal changes, we propose to lay the legal changes in Parliament in accordance with the requirements of Section 89 of the 2008 Energy Act. This is planned to take place later this year in 2024, with the changes taking legal effect before the end of 2024. In practice, the changes will be of no effect until such time as the centralised price has been determined jointly by DESNZ and Ofgem in relation to any particular Regulatory Year – and hence is expected to apply from 1 April 2025.

27. We note that some of the activity to prepare (such as the consultation on the centralised price methodology) will have to take place before powers are enacted. The consultation response on 4G Communications Hub only exchange activity funding, and this consultation on proposed cost recovery arrangements and legal changes will give industry some further clarity on how they should be preparing.

Questions

Questions	
1	Do you agree with our minded to position that costs associated with the provision of the Communications Hub Replacement Reimbursement Service should be recovered via DCC Fixed Charges on a GB-wide basis?
2	Do you have any views on our proposals that where there are existing installed meters in premises that are not joined to the existing Communications Hub Function, Supplier Parties should seek to update the Smart Metering Inventory (SMI) Status of these devices to “Installed Not Commissioned” prior to replacing the Communications Hub in order that DCC does not think these meters have been installed as part of the site visit?
3	Do you have any comments on the legal drafting for the DCC Licence and the main-body of the SEC in Annexes A.1 and A.2?

Annex A.1: Proposed Amendments to the DCC Licence

Condition 17: Requirements for the provision of Services

Introduction

17.1. This condition requires the Licensee to provide Services or, as the case may be, to offer terms for the provision of Services, whether at the request of SEC Parties, REC Parties or otherwise, in accordance with the requirements set out in this condition and subject to such exemptions or restrictions as the condition permits.

PART A: GENERAL PROVISIONS APPLICABLE TO THIS CONDITION

17.2. Where the Licensee is required by any part of this condition to provide Services under or pursuant to an Agreement for Services on terms prescribed by, or determined in accordance with, the provisions of the SEC or REC, such terms of the SEC or REC as are expressed by the SEC or REC to be contractually binding with respect to such provision will comprise the Agreement for Services that applies between the parties by virtue of the obligation of the Licensee to provide the Services.

17.3. The Licensee may, where it would be more economical, efficient, or effective to do so, offer to enter into an Agreement for Services under or pursuant to this condition on terms that relate to the Licensee's receipt of compliant requests from more than one person for the provision of Services, provided that the terms of that offer do not exclude an option for the Services to be provided to only one of the persons making those requests.

17.4. The Licensee may offer to enter into an Agreement for Services on terms that provide, in accordance with any relevant requirement of the Licensee's Charging Methodology for Service Charges, for the allocation and reimbursement of Service Charges among and between persons whose requests for such an agreement (whether because of the timing of those requests or otherwise) would reasonably justify such treatment.

PART B: TERMS IN RESPECT OF CORE COMMUNICATION SERVICES

17.5. The Licensee must, on receiving a request from any SEC Party for the provision of any Core Communication Services that are specified and defined as such in the SEC, provide such services under or pursuant to an Agreement for Services on terms that are prescribed by, or determined in accordance with, the provisions of the SEC.

17.6. The Licensee's obligation to provide Core Communication Services under this Part B is subject to the provisions of Part D below.

PART C: TERMS IN RESPECT OF ELECTIVE COMMUNICATION SERVICES

17.7. The Licensee, on receiving a request from any SEC Party ("the Requester") for the provision of Elective Communication Services under or pursuant to the SEC, must deliver to the Requester as soon as is reasonably practicable, and in any event within 14 days after receiving the request, either**:**

(a) an initial evaluation of the technical feasibility and the likely scale of the cost of satisfying that request for such provision; or

(b) notification that the initial evaluation indicates that a further and more detailed evaluation of the request is required.

17.8. Where paragraph 17.7(a) is applicable, and insofar as the Requester wishes to proceed with the request, the Licensee must offer within 28 days (except where the Requester agrees to a longer period, or where the Authority otherwise consents) to enter into an Agreement for Services with the Requester on such terms as may be agreed.

17.9. Where paragraph 17.7(b) is applicable and the Requester wishes to proceed with the request, the Licensee must undertake and complete the further and more detailed evaluation as soon as is reasonably practicable, and for that purpose may require the Requester to pay evaluation expenses to such extent as may be reasonable in all of the circumstances of the case.

17.10. In paragraph 17.9, "evaluation expenses" means expenses of a kind that**:**

(a) are specified in or are determined in accordance with the Licensee's Charging Methodology for Service Charges; and

(b) have been reasonably incurred by the Licensee in carrying out the further and more detailed evaluation to which that paragraph refers.

17.11. Insofar as the Requester wishes to proceed with the request in the light of the further and more detailed evaluation under paragraph 17.9 and has paid to the Licensee any amount that is payable by virtue of that paragraph, the Licensee must offer within 28 days (except where the Requester agrees to a longer period, or where the Authority otherwise consents) to enter into an Agreement for Services with that person on such terms as may be agreed in respect of the provision.

17.12. Where a request received by the Licensee under paragraph 17.7 does not comply with such requirements as may be specified in the SEC in relation to the submission of requests for the provision of Elective Communication Services, the Licensee must take reasonable steps to ensure that the request does so comply before acting upon it.

17.13. The Licensee's obligation to offer terms under this Part C is subject to**:**

(a) any controls or restrictions on the quantity of services that may be provided, or on the timing with which they are to be provided, that may be in force from time to time under the SEC with respect to the provision of Elective Communication Services; and

(b) the provisions of Part D below.

PART D: TERMS FOR THE OPERATION OF THE ENROLMENT SERVICE

17.14. The Licensee is not required to provide Core Communication Services under Part B above, or to offer terms for an Agreement for Services in respect of any Elective Communication Services under Part C above, if in either case the Smart Metering System to which such services would relate has not been enrolled (in accordance with such rules and procedures for that purpose as are specified in the SEC) into such arrangements for enrolment as are maintained under the SEC.

17.15. The Licensee must carry on the activities of the Enrolment Service (which is the service to which paragraph 17.14 refers) under or pursuant to an Agreement for Services on terms that are prescribed by, or are determined in accordance with, the provisions of the SEC.

17.16. Subject to paragraph 17.17, the Licensee must, on receiving a request from any SEC Party for the enrolment of a Smart Meter or an Advanced Meter that does not comply with the requirements of the Enrolment Service and therefore does not qualify to be enrolled, offer to enter into an

Agreement for Services, in accordance with such rules and procedures as may be specified in the SEC for dealing with such requests, and on such terms as may be agreed in all the circumstances of the case, for**:**

(a) the provision of advice to the SEC Party with respect to such requirements for the reconfiguration or modification of that meter as must be satisfied to enable it to qualify for such enrolment; and

(b) where applicable, the carrying out of any reconfiguration or modification of systems operated by the Licensee that would be necessary to enable the enrolment of that meter.

17.17. The Licensee is not required to comply with paragraph 17.16 if and insofar as doing so would prejudice, or be likely to prejudice, its ability to comply with the Interim General Objective of the Licensee as set out in Condition 5 (General Objectives of the Licensee).

17.18. The Licensee may charge for services provided under paragraph 17.16 in accordance with and to the extent permitted by the provisions of its Charging Methodology for Service Charges.

17.19. Nothing in this Part D requires the Licensee to provide an Enrolment Service for the purposes of any Smart Metering System by means of which a Smart Meter Communication Service is proposed to be provided to any premises, or within any area containing premises, that falls within a category that is for the time being specified by the Licensee as a Service Exemption Category in any Statement of Service Exemptions in force under this condition.

17.20. Appendix 1 (which requires the Licensee to publish, maintain, and keep under review a Statement of Service Exemptions initially approved by the Secretary of State) has effect as part of this condition for the purposes of paragraph 17.19.

Part D1: Terms for provision of the Interoperability Checker Service

17.20A. The Licensee must, on behalf of Energy Suppliers who are SEC Parties, provide an Interoperability Checker Service, which shall:

(a) consist of making available to Energy Consumers, in a form readily accessible to them, information in relation to certain types of Smart Meters installed at premises and the use that may be made of them by Energy Suppliers;

(b) relate to such types of Smart Meters, such information and such manner of provision of information, as may be more fully described in the SEC; and

(c) be on such terms as are prescribed by, or determined in accordance with, the provisions of the SEC.

Part E: Terms for provision of the Communications Hub Service

17.21. The Licensee must, on receiving a request from any SEC Party for the provision of Communications Hubs:

(a) arrange to provide such Communications Hubs, together with ancillary or associated devices or equipment as may be specified under or pursuant to the SEC;

(b) take all reasonable steps to ensure that each such Communications Hub which is installed as a component of a Smart Metering System continues at all times to satisfy the requirements of a Version of the CH Technical Specification which is:

(i) within its Maintenance Validity Period;

(ii) Compatible with the Version of the ESME Technical Specification and the GSME Technical Specification in accordance with which the Smart Metering System, of which it is a component, is maintained by the Energy Supplier; and

(iii) where at the premises at which the Smart Metering System is installed there is installed a HCALCS, a PPMID, an Additional Electricity Smart Meter or a SAPC, Compatible with the Version of the HCALCS Technical Specification, the PPMID Technical Specification, the ESME Technical Specification or the SAPC Technical Specification (as the case may be) in accordance with which that HCALCS, PPMID, Additional Electricity Smart Meter or SAPC is maintained by the Energy Supplier; and

(c) make such other arrangements as to the ownership, delivery, installation, maintenance, repair, removal and replacement of Communications Hubs as may be specified under or pursuant to the SEC,

in accordance with an Agreement for Services on terms prescribed by, or determined in accordance with, the provisions of the SEC.

17.22. The Licensee must manage its duties under and pursuant to this Part E in a manner that is consistent with, and is designed to facilitate, the full and timely installation by Energy Suppliers of Smart Metering Systems at Energy Consumers' premises in accordance with such requirements of the Energy Supply Licence as apply to the activities associated with such installation.

PART E1: TERMS FOR THE PROVISION OF THE COMMUNICATIONS HUB REPLACEMENT REIMBURSEMENT SERVICE

17.22A The Licensee must provide, to all Energy Suppliers who are SEC Parties, a service to be known as the "Communications Hub Replacement Reimbursement Service", which shall:

(a) consist of the Licensee making payments to Energy Suppliers to reimburse each such Energy Supplier for the reasonable cost of each visit carried out by it (or on its behalf) to the premises of one of its Energy Customers during which a 2/3G Communications Hub is replaced with a 4G Communications Hub at those premises;

(b) entail a payment for each such visit of an amount determined in accordance with the methodology adopted from time to time by virtue of Appendix 2;

(c) be provided in each Regulatory Year, other than any Regulatory Year in respect of which paragraph B9 of Appendix 2 applies; and

(d) be on such terms as are prescribed by, or determined in accordance with, the provisions of the SEC.

PART F: TERMS FOR THE PROVISION OF OTHER ENABLING SERVICES

17.23. The Licensee must, on receiving a request from any person (whether or not a SEC Party) for the provision of any Other Enabling Service that is specified and defined as such, whether in Schedule 5 to this Licence (Matters associated with the grant of this Licence) or in the SEC, provide that service under or pursuant to an Agreement for Services on terms prescribed by, or determined in accordance with, the provisions of the SEC.

17.24. Where a request received by the Licensee under paragraph 17.23 does not comply with such requirements as may be specified in the SEC in relation to the submission of requests for the provision of Other Enabling Services, the Licensee must take reasonable steps to ensure that the request does so comply before acting upon it.

PART G: TERMS FOR THE PROVISION OF VALUE ADDED SERVICES

17.25. The Licensee, on receiving a request from any person for the provision of Value Added Services or Centralised Registration Service Value Added Services that have been approved by the Authority in accordance with Part D of Condition 6 (Authorised Business of the Licensee), may offer to enter into an Agreement for Services with that person on such terms (subject to paragraph 17.26) as may be agreed in respect of such provision.

17.26. Except where the Authority otherwise consents, the terms offered by the Licensee for entering into an Agreement for Services under paragraph 17.25 must include terms providing for the novation of that agreement that are substantially the same as those contained within the SEC or the REC as applicable in relation to the novation of any Agreement for Services in place by virtue of Parts B to F of this condition

17.27. Paragraphs 24(a) of Condition 22 (The Smart Energy Code) and 15 of Condition 43 (Arrangements for the handover of business) are relevant to paragraph 17.26.

PART H: CHARGES AND OTHER TERMS IN RESPECT OF SERVICES

17.28. Paragraph 17.29 applies with respect to**:**

(a) each Agreement for Services under or pursuant to this condition requiring the Licensee to provide Services on terms prescribed by, or to be determined in accordance with, the provisions of the SEC or REC as relevant; and

(b) each offer by the Licensee to enter into an Agreement for Services under or pursuant to this condition on such terms as may be agreed.

17.29. In each case to which paragraph 17.28 refers, the agreement or the offer proposing an agreement (as the case may be) must set out**:**

(a) the Service Charges to be paid under or pursuant to the relevant agreement (having regard to the requirements of paragraph 17.30); and

(b) such other detailed terms as are appropriate or necessary for the purposes of the relevant agreement and are not otherwise prescribed.

17.30. The Service Charges referred to in paragraph 17.29(a) must**:**

(a) unless clearly inappropriate, be consistent with the relevant provisions of the Charging Methodology in force under Condition 18 (Charging Methodology for Service Charges) at the time of the agreement or offer; and

(b) be presented so as to be directly referable to the provisions (if applicable) of the Charging Statement in force under Condition 19 (Charging Statement for Service Charges) at the time of the agreement or offer.

PART I: EXEMPTION FROM OBLIGATIONS IMPOSED BY THIS CONDITION

17.31. Paragraph 17.32 states the circumstances in which the Licensee is not obliged under the

provisions of this condition**:**

(a) to provide Services under or pursuant to an Agreement for Services on terms prescribed by, or determined in accordance with, the provisions of the SEC or the REC; or

(b) to enter into, or offer to enter into, an Agreement for Services with a person requesting terms for such an agreement.

17.32. The circumstances to which paragraph 17.31 refers are those arising if**:**

(a) providing the Services or (as the case may be) entering into, or offering to enter into, an agreement to do so would cause, or would be likely to cause, the Licensee to be in breach of (i) any of its functions under the Principal Energy Legislation, or (ii) any applicable provision of the SEC or REC, or (iii) any of the Conditions of this Licence; or

(b) the person requesting the terms does not agree to be bound, to the extent applicable to him, by the provisions of the SEC or REC.

PART J: DETERMINATION OF DISPUTES BETWEEN THE PARTIES

17.33. Any dispute arising between the Licensee and any person that relates to the terms offered by the Licensee for entering into an Agreement for Services under or pursuant to any provision of this condition that requires the Licensee to make such an offer may be referred by either party to the Authority for determination in accordance with such of the provisions of Condition 20 (Determination of disputes by the Authority) as may be applicable to the dispute.

PART K: INTERPRETATION

17.34. For the purposes of this condition**:**

2/3G Communications Hub means a Communications Hub made available by the Licensee to an Energy Supplier and which relies on second or third generation mobile cellular radio technology.

4G Communications Hub means a Communications Hub made available by the Licensee to an Energy Supplier and which relies on fourth generation mobile cellular radio technology.

Advanced Meter has the meaning that is given to that term in standard condition 12 of the Energy Supply Licence.

Communications Hub Replacement Reimbursement Service has the meaning given to that term in Part E1 of this condition, but subject to any further definition or other relevant provision that may be set out in the SEC.

Energy Customer means, in respect of an Energy Supplier, an Energy Consumer who receives a Supply of Energy from that Energy Supplier.

Enrolment Service has the meaning given to that term in Part D of this condition, but subject to any further definition or other relevant provision that may be set out in the SEC.

Interoperability Checker Service has the meaning given to that term in Part D1 of this condition, but subject to any further definition or other relevant provision that may be set out in the SEC.

Requester has the meaning that is given to that term in paragraph 17.7.

Service Exemption Category means either Service Exemption Category 1 or Service Exemption Category 2 (as the case may be), as described respectively at paragraph A3(a) and paragraph A3(b) of Appendix 1.

Statement of Service Exemptions means the document of that name containing the matters set out at Part A of Appendix 1.

17.35. ~~Appendix~~ Appendices 1 ~~follows~~and 2 follow immediately below.

Appendix 1: Statement of Service Exemptions

Introduction

A1. In accordance with paragraph 17.20, this Appendix 1 has effect under this Condition 17 with particular reference to the provisions of paragraph 17.19.

Part A: Preparation and contents of the statement

A2. The Licensee must, within twelve months after the Licence Commencement Date, have prepared and put in place a Statement of Service Exemptions that**:**

(a) sets out, in such detail as may be appropriate for the purpose, the matters that are described at paragraphs A3 and A6; and

(b) has been approved by the Secretary of State following consultation with the Authority, External Service Providers, SEC Parties, and the Licensee.

A3. The matters to which paragraph A2(a) refers are**:**

(a) Service Exemption Category 1, which must specify any types or configurations of premises in Great Britain to which a Smart Meter Communication Service need not for the time being be provided by virtue of the reason that is stated in paragraph A4; and

(b) Service Exemption Category 2, which must specify any geographical areas in Great Britain within which a Smart Meter Communication Service need not for the time being be provided to premises by virtue of the reason that is stated in paragraph A5.

A4. The reason to which paragraph A3(a) refers is that, in each case falling within Service Exemption Category 1, the provision of a Smart Meter Communication Service**:**

(a) would be technically impracticable; or

(b) though technically practicable, could only be achieved at disproportionate cost,

because of (i) the physical or other characteristics of the specified premises, or (ii) any other relevant consideration with respect to the premises.

A5. The reason to which paragraph A3(b) refers is that, in each case falling within Service Exemption Category 2, the provision of a Smart Meter Communication Service**:**

(a) would be technically impracticable; or

(b) though technically practicable, could only be achieved at disproportionate cost,

because of (i) the insularity or the remoteness of the specified area, or (ii) any other relevant consideration with respect to the area.

A6. The Statement of Service Exemptions must also set out such steps as the Licensee has committed to take with a view to securing the eventual provision, by such means as may be technically practicable and at a cost that is not disproportionate, of a Smart Meter Communication Service to premises, or within areas, falling within a Service Exemption Category under paragraph A3.

A7. The Licensee must do all that it reasonably can to comply with and take the steps that it is committed to take by virtue of paragraph A6, in accordance with such estimates as are provided in the Statement of Service Exemptions of the timeframe over which those steps are expected to be taken and completed.

Part B: Licensee's duties with respect to the statement

A8. For the purpose of ensuring that the Statement of Service Exemptions is maintained as a document that accurately reflects the provisions of paragraph 17.19 as amplified by the requirements of this Appendix 1, the Licensee must**:**

(a) review the statement at least once in each full Regulatory Year following the Secretary of State's approval of it under paragraph A2; and

(b) propose to the Authority such revisions (if any) of the statement as the Licensee thinks are appropriate or necessary as a result of that review.

A9. The Authority may at any time, after consulting the Licensee and such other persons as it considers should be consulted in relation to the matter, direct the Licensee to revise the Statement of Service Exemptions in such manner, with effect from such time, and to such extent as may be specified in the direction.

A10. The Licensee must**:**

(a) give a copy of the Statement of Service Exemptions (or of any amended such statement following a revision under paragraph A9) to any person who asks for a copy; and

(b) publish and maintain the Statement of Service Exemptions (or any amended such statement following a revision under paragraph A9) on its Website.

Part C: Assessment of provision at disproportionate cost

A11. This Part C applies for the purposes of paragraphs A4(b) and A5(b) with respect to the question of whether the provision of a Smart Meter Communication Service to premises, or within an area containing premises, that is within a Service Exemption Category under paragraph A3 can only be achieved at disproportionate cost.

A12. That question is to be resolved by the Secretary of State or the Authority (as the case may be) in such manner and by reference to such factors as he or it considers appropriate, having particular regard to the national policy objective to secure the widespread installation and operation of Smart Meters at premises in Great Britain at a reasonable overall cost to the general body of Energy Consumers.

Part D: Interpretation

A13. For the purposes of this Appendix, **Smart Meter Communication Service** has the meaning that is given to that term at paragraph 4 of Part 1 (Terms in Respect of Grant) of this Licence, but with references in that paragraph to Domestic Energy Suppliers and Domestic Premises being read as references to Energy Suppliers and premises generally.

Appendix 2: Communications Hub Replacement Reimbursement Methodology

Introduction

B1. In accordance with paragraph 17.22A, this Appendix 2 has effect under this Condition 17 with particular reference to the provisions of paragraph 17.22A(b).

Part A: The Methodology

B2. In this Appendix 2, the 'Communications Hub Replacement Reimbursement Methodology' (referred to as the **Methodology**) means a methodology which:

(a) is determined in accordance with the procedure set out in Part B or Part C;

(b) sets out the method for calculating an amount (the **Reimbursement Amount**) to be paid:

(i) by the Licensee for the purposes of the Communications Hub Replacement Reimbursement Service;

(ii) to an Energy Supplier;

(iii) in respect of each visit carried out by (or on behalf of) that Energy Supplier to the premises of one of its Energy Customers during which a 2/3G Communications Hub is replaced with a 4G Communications Hub at those premises; and

(c) provides for the calculation of that Reimbursement Amount so that the amount shall be expressed in the form of a number of £ (pounds sterling) per each such visit.

Part B: Procedure for Determining the Methodology

The Initial Methodology

B3. The initial Methodology shall be determined jointly between the Secretary of State and the Authority, by way of mutual agreement between them, and shall apply in respect of the Regulatory Year commencing immediately following that determination.

B4. Before the initial Methodology is determined:

(a) the Secretary of State will liaise with the Authority as to the text of the draft initial Methodology on which they will consult;

(b) the Secretary of State and the Authority shall consult on that draft Methodology with all those persons they consider to have an interest in it.

B5. The steps described in paragraph B4 may take place either before or after this Appendix 2 comes into force.

B6. The initial Methodology determined jointly by the Secretary of State and the Authority shall be so designed as to provide that the Reimbursement Amount paid by the Licensee to an Energy Supplier:

(a) is calculated so as to reflect the reasonable expected costs – in the Regulatory Year in which it applies – of a typical visit to the premises of an Energy Customer by (or on behalf of) and Energy Supplier during which a 2/3G Communications Hub is replaced with a 4G Communications Hub at those premises; and

(b) incorporates an allowance for the reasonable expected costs – in the Regulatory Year in which it applies – of visits to the premises of Energy Customers by (or on behalf of) Energy Suppliers

with the purpose of replacing a 2/3G Communications Hub with a 4G Communications Hub at those premises, but during which it is either not possible or not reasonably practicable to carry out that replacement.

B7. The initial Methodology determined jointly by the Secretary of State and the Authority may, at their discretion, provide that the Reimbursement Amount shall be calculated so as to incorporate an allowance for other categories of cost incurred by Energy Suppliers in replacing 2/3G Communications Hubs with 4G Communications Hubs at the premises of Energy Customers as they may consider appropriate.

B8. The Secretary of State and the Authority:

(a) shall jointly apply the initial Methodology determined by them so as to calculate an agreed Reimbursement Amount for the first Regulatory Year to which that Methodology applies; and

(b) may jointly apply the initial Methodology determined by them so as to calculate an agreed Reimbursement Amount for any subsequent Regulatory Year to which that Methodology applies.

B9. Where, in respect of any Regulatory Year, the Secretary of State and the Authority have not exercised the function of determining a Reimbursement Amount under sub-paragraph B8(b), the Licensee shall not be required to provide a Communications Hub Replacement Reimbursement Service in that Regulatory Year.

Subsequent Methodologies

B10. The Secretary of State and the Authority shall from time to time jointly consider whether the initial Methodology determined by them requires to be amended for the purposes of any subsequent Regulatory Year after the first Regulatory Year in which it applies and, where by mutual agreement they consider that it does, they shall:

(a) jointly determine a new Methodology, by way of mutual agreement between them, to replace the initial Methodology commencing in such Regulatory Year as they may specify;

(b) for that purpose follow the procedure set out at paragraph B4; and

(c) ensure that the new Methodology is designed in accordance with paragraphs B6 and B7.

B11. For the purposes of sub-paragraphs B10(b) and (c), references in paragraphs B4, B6 and B7 to the initial Methodology shall be treated as if they were references to the replacement Methodology.

B12. Paragraphs B8 and B10 shall apply to the first and any subsequent replacement Methodology in the same manner as they apply to the initial Methodology and, where any replacement Methodology has been determined, references in paragraphs B8 and B10 to the initial Methodology shall be treated as if they were references to that replacement Methodology.

The Authority

B13. The Secretary of State may, by means of a direction in accordance with this paragraph which is issued to the Authority, to the Licensee and to all Energy Suppliers, provide that the functions that are exercisable jointly by the Secretary of State and the Authority by virtue of paragraph B10 shall, from such date as may be specified in the direction, be treated as functions exercisable by the Authority alone.

B14. Where the Secretary of State has issued a direction in accordance with paragraph B13, with effect from such date as may be specified in the direction:

(a) paragraph B4 shall be treated as solely comprising a requirement for the Authority to consult on the draft Methodology with the Secretary of State and with all such other persons as it considers to have an interest in that draft; and

(b) all references in paragraphs B6 to B10 to functions that are exercisable jointly by the Secretary of State and the Authority shall be treated as references to functions that are exercisable by the Authority alone.

Part C: Interpretation

B15. In this Appendix 2:

(a) **Methodology** means the Communications Hub Replacement Reimbursement Methodology, and has the meaning given to it in paragraph B2; and

(b) **Reimbursement Amount** has the meaning given to it in paragraph B2.

Condition 1. Definitions

Communications Hub Replacement Reimbursement Service	means the service that is provided by the Licensee pursuant to Part E1 of Condition 17 (Requirements for the provision of services) for the purpose of reimbursing Energy Suppliers for the reasonable cost of certain visits carried out to premises of Energy Consumers to replace Communications Hubs.
Enabling Services	means services forming part of the Mandatory Business of the Licensee that fulfil an enabling role with respect to the provision of Core Communication Services and Elective Communication Services, and that consist of**:** (a) the Enrolment Service; (b) the Communications Hub Service; ~~and~~ (c) the Communications Hub Replacement Reimbursement Service; and ~~(c)~~(d) Other Enabling Services.
Other Enabling Services	means any Enabling Services forming part of the Mandatory Business of the Licensee (other than the Communications Hub Service, the Communications Hub Replacement Reimbursement Service and the Enrolment Service) that are specified and defined as such, whether in this Licence or the SEC.

Condition 6. Authorised Business of the Licensee

6.6 The Enabling Services to which paragraph 6.5(c) refers are these:

(a) the Enrolment Service, being the service operated by the Licensee under an Agreement for Services in accordance with Part D of Condition 17;

(b) the Communications Hub Service, being the service provided by the Licensee under or pursuant to an Agreement for Services in accordance with Part E of Condition 17; ~~and~~

(c) the Communications Hub Replacement Reimbursement Service, being the service provided by the Licensee under or pursuant to an Agreement for Services in accordance with Part E1 of Condition 17; and

~~(c)~~(d) Other Enabling Services, being any Enabling Services that are specified and defined as such in this Licence or the SEC (other than the Communications Hub Service and the Enrolment Service) and that are provided by the Licensee under or pursuant to an Agreement for Services in accordance with Part F of Condition 17.

Condition 22. The Smart Energy Code

22.21 The SEC must include or make appropriate provision for or in connection with the following matters:

(a) of all of the Mandatory Business Services (clearly distinguishing between Core Communication Services, Elective Communication Services, the Enrolment Service, the Communications Hub Service, the Communications Hub Replacement Reimbursement Service, Other Enabling Services, and, as appropriate, the Incorporation, delivery and provision of the Centralised Registration Service) that are to be provided by the Licensee under or pursuant to the SEC…

Condition 30. Requirements for the Regulatory Accounts

30.17 For the purposes of this Condition:

…

Authorised Business Activities means each of the following activities carried on within the Authorised Business of the Licensee:

(a) as part of the Mandatory Business:

(i) the procurement and provision of Core Communication Services,

(ii) the procurement and provision of Elective Communication Services;

(iii) the operation of the Enrolment Service;

(iv) the procurement and provision of the Communications Hub Service;

(v) the procurement and provision of the Communications Hub Replacement Reimbursement Service;

(vi) the procurement and provision of Other Enabling Services;

(vii) the preparation, delivery and provision for the Centralised Registration Service;

(b) as part of the Permitted Business:

(i) the procurement and provision of Value Added Services,

(ii) the procurement and provision of Minimal Services…

Condition 35. Definitions for the Price Control Conditions

35.5 In the Price Control Conditions, unless the context otherwise requires:

…

External Costs	means in relation to each Regulatory Year the actual amount of the costs that were economically and efficiently incurred by the Licensee in procuring Fundamental Service

	Capability during that period, which shall be taken to include the aggregate value of the Reimbursement Amounts paid by the Licensee to Energy Suppliers in that Regulatory Year.
Reimbursement Amount	has the meaning given to that expression in sub-paragraph B2(b) of Appendix 2 to Condition 17 (Requirements for the provision of Services).

Annex A.2: Proposed Amendments to the Smart Energy Code

Section A (New Definitions)

2G/3G Communications Hub means a Communications Hub which is capable of using only 2G and/or 3G mobile cellular radio technology to connect to the SM WAN.

4G DBT Finance Facility means a facility, other than a Communications Hub Finance Facility, arranged by the DCC or a DCC Service Provider with an Approved Finance Party for the funding of the development costs (including design, build and testing costs) of any solutions or services which DCC procures in order to enable or facilitate its provision and/or operation of 4G Communications Hubs, such costs being incurred in respect of activities undertaken up to the point of volume manufacture of the 4G Communications Hubs (such point as further described in the plan produced pursuant to condition 13B of the DCC Licence), and being costs which DCC is entitled to recover via the Fixed Charges under this Code, including by way of a loan facility, an equity subscription, or an assignment or sale of receivables. Without limitation, a 4G DBT Finance Facility may include a facility to fund the payment of CH Replacement Reimbursement Amounts, thereby spreading the cost of paying those amounts across multiple Regulatory Years.

CH Replacement Reimbursement Amount has the meaning given to that expression in Section F14 (CH Replacement Reimbursement Service).

CH Replacement Reimbursement Event has the meaning given to that expression in Section F14 (CH Replacement Reimbursement Service).

CH Replacement Reimbursement Service means the Communications Hub Replacement Reimbursement Service.

Communications Hub Replacement Reimbursement Service means the Service of that name provided for in the DCC Licence, as further described in Section F14 (CH Replacement Reimbursement Service).

Enabling Services means one or more of the Enrolment Service, the Communications Hub Service, the CH Replacement Reimbursement Service, and the Other Enabling Services.

Other Enabling Services means the Services other than the Enrolment Services, the Communications Hub Services, the CH Replacement Reimbursement Service, and the Communication Services.

Services means the services provided, or to be provided, by the DCC pursuant to Sections F5 (Communications Hub Forecasts and Orders) to F10 (Test Communications Hubs), Section F14 (CH Replacement Reimbursement Service), Section H (DCC Services), Section L (Smart Metering Key Infrastructure and DCC Key Infrastructure) or Section N6 (Transition and Migration Approach Document), including pursuant to Bilateral Agreements.

Section F14 (CH Replacement Reimbursement Service)

F14. CH REPLACEMENT REIMBURSEMENT SERVICE

Overview

F14.1 The DCC shall provide the CH Replacement Reimbursement Service, which shall consist of the DCC paying the CH Replacement Reimbursement Amount to the Lead Supplier for a Communications Hub on the occurrence of a CH Replacement Reimbursement Event in respect of that Communications Hub (subject to and in accordance with this Section F14).

F14.2 The CH Replacement Reimbursement Service shall apply only in respect of CH Replacement Reimbursement Events occurring during the Regulatory Years for which a CH Replacement Reimbursement Amount is determined under the DCC Licence.

CH Replacement Reimbursement Amount

F14.3 The "**CH Replacement Reimbursement Amount**" for each CH Replacement Reimbursement Event occurring during a given Regulatory Year, shall be the reimbursement amount for the given Regulatory Year determined in accordance with the methodology established under appendix 2 (Communications Hub Replacement Reimbursement Methodology) of Condition 17 (Requirements for the Provision of Services) of the DCC Licence.

CH Replacement Reimbursement Event

F14.4 A "**CH Replacement Reimbursement Event**" shall be taken to have occurred in respect of a Communications Hub when all of the following requirements are satisfied:

(a) a previously installed 2G/3G Communications Hub was removed from a premises and that 2G/3G Communications Hub was a SMETS2+ Communications Hub;

(b) during the site visit to remove the 2G/3G Communications Hub, no new Energy Meters were installed to serve the premises which were previously served by the 2G/3G Communications Hub;

(c) during such site visit, a 4G Communications Hub was installed to serve the premises which were previously served by the 2G/3G Communications Hub; and

(d) such site visit occurred during a Regulatory Year to which the CH Replacement Reimbursement Service applies (as per Section F14.2).

Supplier Party Forecasts

F14.5 The DCC may, from time to time, require Supplier Parties to provide forecasts of how many CH Replacement Reimbursement Events the Supplier Party expects to occur in respect of Communications Hubs for which the Supplier Party is the Lead Supplier. The DCC shall act reasonably in determining the forecasts which it requires Supplier Parties to provide.

F14.6 Each Supplier Party shall provide to the DCC such forecasts as the DCC requires under Section F14.5. Each Supplier Party shall provide each such forecast in respect of such periods as the DCC may reasonably require, on or before such date as the DCC may reasonably require, and in such form as the DCC may reasonably require.

F14.7 Each Supplier Party shall ensure that its forecasts under this Section F14 are prepared in accordance with Good Industry Practice.

Payments by the DCC

F14.8 The DCC shall pay CH Replacement Reimbursement Amounts to Supplier Parties as follows:

(a) for each CH Replacement Reimbursement Event occurring in respect of a Communication Hub, the DCC shall pay the CH Replacement Reimbursement Amount to the Lead Supplier for that Communications Hub;

(b) the DCC shall pay the CH Replacement Reimbursement Amounts monthly in arrears for the CH Replacement Reimbursement Events which are identified during that month;

(c) for each Supplier Party to which one or more CH Replacement Reimbursement Amounts are payable, the DCC shall include a credit for the relevant amount in the Invoice which the DCC produces for the relevant month; and

(d) the DCC's obligation to pay each Supplier Party the CH Replacement Reimbursement Amounts for a month shall be settled as follows:

(i) the credit included in each Invoice shall initially be set-off against the amount of the Charges which would otherwise have been payable by the Supplier Party under that Invoice (but excluding for these purposes any and all Charges to which Section J1.2(b) applies, so that those Charges must be payable by the Supplier Party without set-off); and

(ii) the balance of the credit (if any) shall be paid by the DCC to the Supplier Party within 10 Working Days following the end of the month (to such UK bank account as the Supplier Party may notify to the DCC in writing from time to time on not less than 10 Working Days' prior notice).

F14.9 If the DCC identifies that it has paid a CH Replacement Reimbursement Amount to a Supplier Party in error (including if an event which was initially identified as a CH Replacement Reimbursement Event is subsequently identified as not having been one), then the Supplier Party shall reimburse the DCC for the same. The DCC shall deal with such reimbursement via an adjustment payment in an Invoice.

Identifying CH Replacement Reimbursement Events

F14.10 The DCC shall initially identify CH Replacement Reimbursement Events by monitoring the Smart Metering Inventory and other information available to the DCC, and shall use this initial identification for the purposes of Section F14.8 (subject to Sections F14.11 and F14.12). Without limitation, the following shall indicate that a CH Replacement Reimbursement Event has occurred:

(a) a 2G/3G Communications Hub which is a SMETS2+ Communication Hub is Decommissioned;

(b) a 4G Communications Hub is contemporaneously Commissioned and listed against the MPAN and/or MPRN against which the 2G/3G Communications Hub was previously listed; and

(c) there is no change to the Device ID of the Energy Meter or Energy Meters listed for that MPAN and/or MPRN and no new Energy Meter Device IDs are listed for that MPAN and/or MPRN.

F14.11 The DCC shall establish, manage and operate a reasonable process whereby Supplier Parties can report and provide evidence of additional CH Replacement Reimbursement Events which were not originally identified by the DCC. Where this process leads to the DCC identifying additional CH Replacement Reimbursement Events, the corresponding CH Replacement Reimbursement Amounts shall be paid under Section F14.8.

F14.12 Each Supplier Party which is paid one or more CH Replacement Reimbursement Amounts shall, in accordance with Good Industry Practice, check that a corresponding CH Replacement Reimbursement Event did occur. A Supplier Party which identifies that it was paid a CH Replacement Reimbursement Amount in error shall inform the DCC, who shall then make an adjustment under Section F14.9.

DCC Reports on Identified CH Replacement Reimbursement Events

F14.10 The DCC shall produce and provide to each Supplier Party a monthly report showing the CH Replacement Reimbursement Events which the DCC has identified has having occurred for Communications Hubs for which that Supplier Party was the Lead Supplier. The DCC shall include in such reports the relevant MPAN and/or MPRN to enable the Supplier Party to identify the premises. Each such report shall cover the events identified as having occurred in the previous 12 months, as updated pursuant to Sections F14.11 and F14.12.

Audit

F14.10 The Panel may (and shall at the request of the Authority) appoint an independent auditor to audit the operation of this Section F14. Such audit may be of general application or in relation to one or more specified Supplier Parties. Such audit may include an audit of the CH Replacement Reimbursement Events in relation to which a Supplier Party has been paid CH Replacement Reimbursement Amounts, to identify whether those events did occur. The DCC and each Supplier Party shall provide reasonable co-operation in relation to any such audit, including access to records.

Section J1.2 (Invoicing of Charges)

J1.2 Following the end of each month in which one or more Parties incurs Charges in accordance with the Charging Statement, the DCC shall prepare and submit to each such Party one or more invoices or one or more invoices with a separate accompanying statement (in either case, an "**Invoice**") showing:

(a) in respect of all Charges other than those referred to in Section J1.2(b): (i) the date by which payment is due pursuant to Section J1.5; (ii) a breakdown (in reasonable detail) of the Charges incurred by that Party in that month; (iii) subject to Section J1.4, the amount of VAT payable on the above amounts; (iv) any adjustment required pursuant to Section J1.9; and (v) the total amount payable by that Party in respect of the above; and

(b) (only following a Communications Hub Finance Acceleration Event and/or 4G DBT Finance Acceleration Event) in respect of any Communications Hub Finance Charges and/or 4G DBT Finance Charges (as applicable) which are required to be invoiced separately under the terms of a Direct Agreement with an Approved Finance Party: (i) the date by which payment is due pursuant to Section J1.5; (ii) a breakdown (in reasonable detail) of the Charges incurred by that Party in that month; (iii) subject to Section J1.4, the amount of VAT payable on the above amounts; (iv) any adjustment required pursuant to Section J1.9; and; (v) the total amount payable by that Party in respect of the above.

Section J1.7 (Payment of Charges)

J1.7 Payments shall be made in pounds sterling by transfer of funds to the credit of the account specified in the Invoice, and shall not be deemed to be made until the amount is available as cleared funds. Each payment shall identify within its reference the Invoice number to which that payment relates. The paying Party shall be responsible for all banking fees associated with the transfer of funds. The DCC may at its discretion specify a different account for amounts payable by way of the Communications Hub Finance Charges or 4G DBT Finance Charges relating to each Approved Finance Party (separately from amounts payable in relation to each other Approved Finance Party and/or all other Charges). The accounts specified by the DCC for the purposes of amounts payable by way of the Communications Hub Finance Charges or 4G DBT Finance Charges may be accounts held in the name of the relevant Approved Finance Party.

Section J4.5 (Indicative Budgets)

Add the following term to the table: ECRRRt = Estimated CH Replacement Reimbursement Revenue.

Section K2 (Estimated Revenues)

Estimated CH Replacement Reimbursement Revenue

K2.7 In respect of each Regulatory Year, the DCC shall estimate the amount that will be payable by it to Supplier Parties during that Regulatory Year by way of CH Replacement Reimbursement Amounts. Where the DCC has entered into a 4G DBT Finance Facility in respect of some or all of the CH Replacement Reimbursement Amounts, then the DCC's estimate for a Regulatory Year shall not include those amounts, and shall instead include the debt service cost under that facility during that Regulatory Year.

K2.8 The DCC shall then, for each Regulatory Year, calculate an amount of revenue equal to the costs under Section K2.7, being the "**Estimated CH Replacement Reimbursement Revenue**" for that Regulatory Year. For clarity, this Estimated CH Replacement Reimbursement Revenue is part of the Estimated Fixed Revenue, and is to be recovered as part of the Fixed Charges.

Section K3.8

K3.8 In order to provide a degree of transparency of costs, the DCC shall apportion the Estimated Fixed Revenue between:

(a) the National Fixed Revenue, the Alt HAN Fixed Revenue and the Regional Fixed Revenue for each Region so as to reflect the relative proportion of the cost and expenses that the DCC incurs across all Regions or in particular Regions in providing the Services and in reimbursing the Alt HAN Costs (ignoring the Communications Hub Services, the Test CH Services and the Elective Communication Services and ignoring the costs and expenses designed to be recovered pursuant to the Explicit Charges);

(b) the Regional Communications Hub Fixed Revenue for each Region so as to reflect the cost and expenses that the DCC incurs in providing, in respect of that Region, the Communications Hub Services and the Test CH Services (ignoring the incremental costs and expenses incurred in providing individual Communications Hubs, and also ignoring the costs and expenses designed to be recovered pursuant to the Explicit Charges); and

(c) the Regional Communications Hub Device Revenue for each Region so as to reflect the incremental cost and expenses that the DCC incurs in providing, in respect of that Region, each individual Communications Hub of each HAN Variant which is available for that Region (ignoring the costs and expenses designed to be recovered pursuant to the Explicit Charges),

in each case, so that any revenue restriction correction factor adjustment contained within the Estimated Fixed Revenue is apportioned between (a), (b) or (c) above on the basis of the extent to which it arose in relation either to the Services referred to in (a), (b) or (c) respectively. To add a further layer of transparency, the DCC shall identify the amount of the National Fixed Revenue which equates to the Estimated CH Replacement Reimbursement Revenue.