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MP130

‘CH order and delivery changes due to COVID-19’

Modification Report

Version 1.0



About this document

This document is a Modification Report. It currently sets out the background, issue, solution, impacts, costs, implementation approach and progression timetable for this modification, along with any relevant discussions, views and conclusions.

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This document also has three annexes:

- **Annex A** contains the redlined changes to the Smart Energy Code (SEC) required to deliver the Proposed Solution.
- **Annex B** contains the proposed 'Temporary CH Ordering and Delivery Rules' document being introduced by this modification.
- **Annex C** contains the non confidential responses to the Refinement Consultation.

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1. Summary

This proposal has been raised by Sasha Townsend from the Data Communications Company (DCC).

Each month, Parties are required to forecast their Communications Hub orders covering the 24-month period commencing on the sixth month after the month in which the forecast is submitted. Parties are then required to confirm their orders five months prior to delivery within tolerances based on their forecasts ten months and seven months prior to delivery. Parties can cancel their order, but this would incur financial penalties.

The current UK Government social distancing guidance issued to help reduce the spread of the coronavirus (COVID-19) means only essential Communications Hub installations are taking place. There is currently no definitive end date to this guidance.

The manufacturers of Communications Hubs are not in the UK, are not subject the same social distancing restrictions and are therefore still producing Communications Hubs. DCC Communications Service Providers (CSPs) are obliged to take delivery of the Communications Hubs and deliver them to Suppliers. However, GB Suppliers cannot take delivery as their warehouses are closed.

The DCC, working with Suppliers, Service Providers and The Department for Business, Energy and Industrial Strategy (BEIS), has identified a solution to the issue. This would see Service Providers storing the Communications Hubs on behalf of Suppliers and, to protect the supply chain, minimum monthly order numbers for each CSP have been agreed across the industry for the medium term (up to the end of 2021).

This modification affects Supplier Parties and the DCC. There are no DCC System changes required to implement this modification. If approved, this modification will be implemented one Working Day following the decision.

2. Issue

What are the current arrangements?

Each month, Parties are required to forecast their Communications Hub orders covering the 24-month period commencing on the sixth month after the month in which the forecast is submitted. Parties are then required to confirm their orders five months prior to delivery within tolerances based on their forecasts ten months and seven months prior to delivery. Parties can cancel their order, but this would incur financial penalties.

What is the issue?

The current UK Government social distancing guidance issued to help reduce the spread of the coronavirus (COVID-19) means only essential Communications Hub installations are taking place. There is currently no definitive end date to this guidance.

Energy Suppliers and their agents have significantly reduced smart meter installations in the light of the UK lockdown and requirements to protect both their customers and employees. This has resulted in large numbers of Communications Hubs being held by Suppliers. Scheduled deliveries that are required under the SEC to continue mean Suppliers now face the challenge of reduced warehouse capacity and the need to minimise the unnecessary movement of Communications Hub stock.

The provisions in the SEC are specific about how and when Communications Hub order volumes can be changed by Suppliers. They do not account for a scenario like the sudden reduction to installations that has occurred.

Significant lead time in Communications Hub manufacture and transport makes it difficult to reduce delivery and production volume immediately. The manufacturers of Communications Hubs are not UK based and therefore are not subject to the same social distancing guidance. They are continuing to manufacture Communications Hubs and the Service Providers are contractually obliged to receive them. Under the SEC, Parties are obliged to receive the deliveries they ordered.

What is the impact this is having?

Communications Hub deliveries for the month of May are now due. An agreement to diverge from SEC processes and follow the proposed approach is required urgently to prevent DCC Service Providers being obliged to deliver Communications Hubs to warehouses that are already full and require staff to go into these sites to receive them unnecessarily.

3. Solution

Proposed Solution

The DCC's proposed solution will introduce new obligations for both the DCC and Parties through implementing a temporary Communications Hub ordering and delivery process. It particularly notes a proposed order commitment period for Parties and the DCC's requirement to hold stock or defer deliveries on behalf of Parties. Legal certainty is needed that Parties will take the minimum order quantities once deliveries can recommence in order to protect the supply chain.

The DCC, working with Suppliers, Service Providers and BEIS, has identified a solution to the issue. The DCC will reduce Parties' Communications Hub orders from 1 May 2020 to 31 August 2020. There will be different solutions for each CSP, as outlined below. The detailed solutions can be found in the 'Temporary CH Ordering and Delivery Rules' document in Annex B.

CSP North solution

For the CSP North, the solution will be to reduce manufacturing and delivery output to the minimum viable levels of 51 Communications Hub pallets per month. The DCC will then apportion these Communications Hubs to Suppliers as per the method set out in the 'Temporary CH Ordering and Delivery Rules' document.

From May 2020 to August 2020, the DCC will not deliver the (reduced volume of) Communications Hubs to Suppliers. Instead, it will store them on behalf of Suppliers, and then deliver all stored Communications Hubs as one delivery in September or October 2020. There will be no additional storage charge for storage until 31 October 2020.

Following this period, from 1 September 2020 until 31 May 2021, monthly minimum deliveries will recommence. These minimum amounts will be apportioned according to Parties' forecasts and be in addition to the deferred May 2020 to August 2020 deliveries. The formula for this apportionment is set out in the 'Temporary CH Ordering and Delivery Rules' document.

The CSP North solution covers both Single Band and Dual Band Communications Hubs.

CSP Central & South solution

For the CSP Central & South, the solution will not be an immediate reduction in orders but will be to defer May 2020 to September 2020 deliveries of orders by four months. From May 2020 to August 2020, Suppliers' orders for Single Band Communication Hubs will be stored by the CSP. The order for May 2020 will be delivered in September 2020 and so on, until the order for August 2020 is delivered in December 2020.

From September 2020 to December 2021 there will be a minimum order across the industry of 62 Communications Hubs pallets per month. These minimum orders will be delivered monthly, in addition to the deferred May 2020 to August 2020 deliveries, and will be apportioned according to Suppliers' monthly forecasts up to May 2021. From June 2021 to December 2021 these minimum orders will be apportioned based on Supplier market share. The formula for these two apportionment methods are set out in the 'Temporary CH Ordering and Delivery Rules' document.

Dual Band Communications Hubs are not accounted for in this solution and will need to be ordered separately to this.

4. Impacts

This section summarises the impacts that would arise from the implementation of this modification.

SEC Parties

SEC Party Categories impacted			
✓	Large Suppliers	✓	Small Suppliers
	Electricity Network Operators		Gas Network Operators
	Other SEC Parties	✓	DCC

This issue affects Suppliers and the DCC.

DCC System

There will be no impact to DCC Systems from this modification.

SEC and subsidiary documents

The following parts of the SEC will be impacted:

- Section F 'Smart Metering System Requirements'

The changes to the SEC required to deliver the proposed solution can be found in Annex A.

Consumers

There are no expected impacts to consumers.

Other industry Codes

There are no expected impacts to other Codes.

Greenhouse gas emissions

There are no expected impacts to greenhouse gas emissions.

5. Costs

DCC costs

There are no DCC System costs to implement this modification.

SECAS costs

The estimated Smart Energy Company Administrator and Secretariat (SECAS) implementation costs to implement this modification is one day of effort, amounting to approximately £600. The activities needed to be undertaken for this are:

- Updating the SEC and releasing the new version to the industry.

SEC Party costs

There are no additional costs on SEC Parties to implement this modification.

6. Implementation approach

Recommended implementation approach

SECAS is recommending an implementation date of:

- **One Working Day following decision** (Standalone SEC Release).

Deliveries of Communications Hubs in May 2020 are due shortly. This modification needs to be implemented as soon as possible to stop the deliveries, reduce the financial burden on Parties and put in place the alternative arrangements.

7. Assessment of the proposal

Development of a solution

The DCC, working with Suppliers, Service Providers and BEIS through weekly industry-wide meetings held since mid-April, has identified solutions to the issues faced. These solutions have received broad support from the industry, who have worked together collaboratively, in the interests of all, to reach a solution which can ensure supply in the longer term while reducing burden in the shorter term.

The DCC has also reached out bilaterally to all Users who have Communications Hub forecasts in place over the impacted period; those contacted have signalled their support for the solutions presented. At the time of this report's issue, bilateral contact with two Users had yet to be made successfully.

Progression as an Urgent Proposal

The DCC raised DP130 on 14 May 2020, requesting it be progressed as an Urgent Proposal. The Proposer believes this issue, if not resolved before the May 2020 delivery of Communications Hubs is made, will have a significant commercial impact on Parties and other stakeholders. The DCC highlights the current delivery date of 18 May can only be extended by a few days at most. If the issue is not resolved by then, the DCC will have to continue Communications Hub ordering and deliveries as per business-as-usual in order to meet its SEC obligations, which in turn will create a significant impact on Parties.

The Panel considered the proposal and the request for Urgency on 15 May 2020. It agreed with the Proposer's rationale for why this modification should be progressed as an Urgent Proposal and agreed to request the Authority grant Urgent status. The Authority granted Urgency on 18 May 2020 and set the timetable shown in Appendix 1.

Support for Change

Refinement Consultation responses

Seven responses were received to the Refinement Consultation, six respondents believed that the modification should be approved. One respondent believed that it should be rejected. One supportive respondent suggested that the details in the 'Temporary CH Ordering and Delivery Rules' needed amending. They were concerned that the proposed use of market share to calculate future minimum orders will use market share figures as at May 2020. Going forward this would mean these figures would become more and more out of date and suggested using the previous months' market share data for each months' orders.

In addition, the same respondent was concerned that the minimum orders were only being apportioned between Suppliers that placed orders directly with DCC, not those that used Third Parties for ordering. They suggested this amounted to a 20% increase in order numbers for those Suppliers that ordered directly.

The Proposer agreed to make amendments to the 'Temporary CH Order and Delivery Rules' to ensure a more equitable apportionment.

Another respondent was concerned about what would happen if social distancing were extended beyond the currently anticipated period or if it were imposed again to accommodate a 'second wave'. The Proposer agreed this is a possibility but would be dealt with if, and when, it became necessary.

Views against the General SEC Objectives

Proposer's views

Objective (a)

The Proposer believes this modification will better facilitate General SEC Objective (a)¹, believing that this will help to better facilitate the efficient provision and installation of smart metering systems.

¹ Facilitate the efficient provision, installation, operation and interoperability of smart metering systems at energy consumers' premises within Great Britain.

Appendix 1: Progression timetable

The Authority has granted Urgent status for this modification, meaning the timeline can deviate from the normal Section D process as directed by the Authority.

The Modification Report will then be considered at an ad-hoc Panel meeting on 22 May before the Change Board vote is carried out that same day.

This modification will be progressed as an Authority Determined Modification

Timetable	
Event/Action	Date
Draft Proposal raised	14 May 2020
Panel requests Urgency	15 May 2020
Authority approves Urgency	18 May 2020
Refinement Consultation	19 May – 21 May 2020
Modification Report presented to Panel	22 May 2020
Change Board vote	22 May 2020

Appendix 2: Glossary

This table lists all the acronyms used in this document and the full term they are an abbreviation for.

Glossary	
Acronym	Full term
BEIS	Department for Business, Energy and Industrial Strategy
CSP	Communications Service Provider
DCC	Data Communications Company
SEC	Smart Energy Code
SECAS	Smart Energy Code Administrator and Secretariat