
Smart Energy Code (SEC) Modification Proposal (MP) 275: 'Section K changes to support 4G Communications Hubs rollout'

Decision:	The Authority ¹ determines that this modification ² should be made ³
Target audience:	Data and Communications Company (DCC), SEC Panel, Parties to the SEC and other interested parties
Date of publication:	13 February 2025
Implementation date:	14 February 2025

Background

4G rollout

By 2033 all communications via 2G/3G in the Central and South regions will stop. In order for smart meters to continue to work the current CHs must be exchanged for those compatible with 4G communications. 4G CH rollout is due to start in July 2025.

The Data Communications Company

The Data Communications Company (DCC) Part of Capita PLC, the DCC is a monopoly company that operates under the Smart Meter Communications Licence, which is regulated by Ofgem. It is responsible for linking smart meters in homes and businesses with energy suppliers, network operators and energy service companies.

The primary function of the DCC is to provide the safe, encrypted system which all smart metering messages go through via the Communications Hub in the customers home to the suppliers. The DCC must fulfil its licence obligations to ensure that it stays secure and functioning as required to deliver the smart benefits that consumers deserve.

A Communications Cub (CH)

A Communications Cub (CH) is a device installed on top of electricity smart meters and is designed to connect the Wide Area Network (WAN), DCC's secure network to smart gas and

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² 'Change' and 'modification' are used interchangeably in this document.

³ This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989 and by section 38A of the Gas Act 1986.

electric meters, and s, there is also a Dual Band Communication Hub, which provides a better range for premises where needed.

Unitary Charge

Unitary Charge means unifying the existing charges for the Fixed CH Charge and the CH Stock Level Charge calculated by the DCC irrespective of HAN variant.

Currently, under SEC Section K 'Charging Methodology', Fixed monthly CH Charges are split into different parts.

Single band and Dual Band CH Charge

When DBCHs were introduced, there was a higher charge listed for them due to their higher cost and to prevent pass along costs to consumers in instances where there was limited evidence that a DBCH would be a better option than a SBCH. These charges are based on how many CHs each Supplier has in stock and installed at the start of the Regulatory Year (RY) and are payable from the point a CH order has been delivered and accepted. In July 2025, 4G CH rollout will commence. Given the price discrepancy and the 4G CH being dual band and therefore more expensive, the Proposer believes a unitary charge could help prevent a disincentive to deploying 4G CHs.

Fixed Charge and Stock Level Charge

Fixed CH Charge refers to the charge for installed CH, whereas stock level charge is for CH that are held by suppliers that are not installed.

Returned not Redeployed Charge

Returned not redeployed Charge is for CHs that are unusable or destroyed and cannot be reconditioned and used. Suppliers must repay the full cost of the CH on return. Due to the upfront cost of the return, the Charge was not designed for a full-scale swap-out of all CHs of one type. The Proposer believes in its current state the charge will disincentivise Suppliers from returning the CH and would therefore delay 4G rollout.

The modification proposal

The Data Communications Company (DCC), hereinafter referred to as “the Proposer”, raised SECMP275 'Section K⁴ changes to support 4G Communications Hubs rollout'⁵ on the 7 October 2024 after reviewing their charging methodology and the potential impacts it may have on 4G rollout. We approved the progression of the modification as Urgent on the 23 October 2024⁶, and updated the progression timeline in a superseding letter on the 8 November 2024⁷ concerns that there was insufficient time for the modification to progress as per the processes set out in SEC section D 'Modification Process'⁸.

The modification proposes to introduce a Unitary Charge for all future CH installations and stock level charges across Great Britain. These charges would be recovered from all Suppliers based on their market share, regardless of how many 4G CHs they hold. The Proposer believes this could incentivise Suppliers to advance the 4G CH rollout.

The second part of this modification aims to disqualify the Returned not Redeployed Charge in the Central and South Regions only. The costs will be spread out as if they were an installed asset under the CH Fixed Charges.

The Proposer believes that this modification will better facilitate the SEC Objectives, namely, A and G and the modification would facilitate the 4G CH rollout, ensuring that costs associated with the rollout are equitably levied across industry.

SEC Change Board⁹ recommendation

At the SEC Change Board meeting on 10 January 2025¹⁰, a majority of the Change Board considered that SECMP275 would better facilitate the SEC Objectives, and the Change Board therefore recommended its approval. One large supplier rejected the modification based on

SEC Section K – Charging Methodology

⁵ Section K changes to support 4G Communications Hubs rollout - Smart Energy Code (smartenergycodecompany.co.uk)

⁶ Decision to grant urgency for SECMP275 | Ofgem

⁷ Update to decision on urgency timetable SECMP275 | Ofgem

⁸ SEC Section D – Modification Process

⁹ The SEC Panel and Change Board are established and constituted pursuant to and in accordance with DCC Licence 22.26(a).

¹⁰ Change Board - ad hoc - Smart Energy Code

the wider concerns around funding arrangements. The majority of members felt the modification better facilitated SEC Objectives A, B, D and G.

There were three responses to the Modification Report Consultation¹¹. Regarding alignment with the SEC Objectives, one respondent agreed that it better facilitates A and G, with another noting that they believe it better facilitates objectives A, B, D and G. The final respondent did not agree that the modification had provided sufficient information to confirm which SEC Objectives would be impacted. The Suppliers who responded positively believed that the modification would aid in mitigating barriers to 4G rollout.¹²

The majority of the views from the Change Board and the Modification Report Consultation were positive and believed that granting the modification would facilitate the mass rollout of 4G CHs. One respondent to the Modification Report Consultation stated that they support the modification based on the expected costs DCC have shown and the understanding that the costs will be regularly reviewed throughout the year to ensure that the DCC does not recover over its Allowed Revenue¹³. Furthermore, there were concerns noted by Change Board members that there is ongoing work related to changes in charging and that this should not be taken as a 'green light' for other projects. This is partially in reference to the DCC's upcoming decision on whether to fund or finance CHs. Currently, CHs are financed and repaid over many years, whereas a funding model would see the costs being repaid over 12 months. There was a split in views both in the MRC and the CB, with regards to the financing versus funding programme where some members felt that the modification would be required regardless of the outcome of the SEC Panel recommendation to the Department of Energy Security and Net Zero (DENSZ) and others believing that without the outcome of the financing versus funding question they would not have the information needed to make a decision.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 10 January 2025. We have considered and taken into account the votes of the SEC Change Board on the proposal which is attached to the FMR. We have concluded that:

¹¹ smartenergycodecompany.co.uk/documents/sec/mp275-modification-report-consultation-responses/

¹² [General SEC Objectives - Smart Energy Code](#)

¹³ [Allowed Revenue - Smart Energy Code](#)

- implementation of the modification proposal will better facilitate the achievement of the SEC Objectives;¹⁴ and
- directing that the change is approved is consistent with the Authority's principal objective and statutory duties.¹⁵

Reasons for our decision

We consider this modification proposal will better facilitate SEC Objectives A, B and D and has a neutral impact on the other applicable Objectives.

The first General SEC Objective is to facilitate the efficient provision, installation, and operation, as well as interoperability, of Smart Metering Systems at Energy Consumers' premises within Great Britain

- The majority of the Change Board believed that SECMP275 will better facilitate SEC Objective A, as the changes to the Charging Methodology in relation to CHs would no longer deter Suppliers from installing 4G CHs.
- We agree with industry's view that the current charging arrangements could hinder the rollout of 4G CHs, due to the higher costs for the DBCH, and therefore agree that the introduction of a unitary charge could incentivise Suppliers to install 4G CHs. We consider that the unitary charge and the changes to the Returned not Redeployed Charge will allow for cost savings for consumers during 4G rollout.

The second General SEC Objective is to enable the Licencee to comply at all times with the General Objectives of the Licencee, and to efficiently discharge the other obligations imposed upon it by this Licence.

- The majority of the Change Board believed that SECMP275 will better facilitate SEC Objective B, as the modification proposal would ensure the current charging arrangements do not prevent or disincentivise Supplier's from fulfilling their Licence Obligations relating to the full and timely installation of Smart Metering Systems.

¹⁴ The Objectives in accordance with DCC Licence 22.10-22.17

¹⁵ The Authority's statutory duties are wider than matters that the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended and the Gas Act 1986 as amended.

- We consider that the modification proposal could enable the better facilitation of SEC Objective B as the appropriate metering system stipulated in the licence will include the new 4G CH. The current provisions could financially disincentivise Suppliers from complying with their licence conditions.

The fourth General SEC Objective is to facilitate effective competition between persons engaged in, or in Commercial Activities connected with, the Supply of Energy under the Principal Energy Legislation.

- Part of the Change Board believed that MP275 will better facilitate SEC Objective D, as the changes in the Charging Methodology would ensure consumers are not valued differently based on the CH installed at their premises.
- Although we disagree with the reasons industry gave for this Objective at the CB, we do agree that the acceptance of this modification will facilitate competition due to the introduction of a shared cost for CHs per market share that could incentivise Suppliers to prioritise installing 4G CH, as they will be sharing the costs for the CHs regardless of whether they have started 4G rollout.

The seventh General SEC Objective is to facilitate the efficient and transparent administration and implementation of the SEC.

- The majority of the Change Board believed that MP275 will better facilitate SEC Objective G, as the proposed changes to the legal text will allow transparency of how the DCC Charges are calculated.
- We consider the effect of this modification on SEC Objective G will be neutral, given that the SEC's status of transparency and efficiency would not change as the current legal text outlines how charges are calculated currently.

Further considerations

We are aware of the concerns industry have regarding this modification proposal and the wider charging implications, including the Panel Recommendation to DESNZ regarding the decision to fund or finance CHs. Although this cost, which will be passed along via the Price Cap to consumers, could be higher, we do not consider that the funding versus financing decision changes the need to create a unitary charge or the terms around Returned not Redeployed Charge.

We echo the respondents' comments to the Modification Report Consultation listed in the Conclusions Report V.10, that costs should be reviewed throughout the year to ensure that the costs do not exceed the DCC's Allowed Revenue.

The technical nature of the SEC requires careful consideration when assessing modifications. It is imperative that all modification proposals are fully developed, understood and robust to ensure all SEC Parties are able to contribute to the discussion and development and that careful communication around complex modifications is essential to aid understanding.

There were many concerns and confusion shared in different working group meetings and within the consultation responses. Industry could have benefitted from clearer communication which was readily available at appropriate times. We note that essential information, like the legal text, was only available at the final hour, such as in the case of the consultations. Additionally, whilst we expect modification reports to include all relevant information, the communication included in the modification around the decision of funding vs financing did not make it clear that this modification was not dependent on that decision. Granting this decision does not guarantee that if a similar situation occurs it will not be sent back or rejected. There are due processes and obligations to provide the necessary information at set times. On this occasion, the standard was barely met, and we urge caution going forward and reiterate the need for robust development and assessment.

Decision notice

In accordance with Standard Licence Condition 23 of the Smart Meter Communication licence, the Authority hereby determines that modification proposal SECMP275: 'Section K changes to support 4G Communications Hubs rollout' be made.



Grace Royall

Senior Policy Manager

Retail Systems and Processes

Signed on behalf of the Authority and authorised for that purpose