

DCC Consultation Response

**Consultation on proposed
changes to the Temporary
Communications Hub Ordering
& Delivery Rules for Mid-Term
Central & South Region and
other amendments**

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1. Introduction

As a result of UK Government social distancing guidance issued to help reduce the spread of the coronavirus (COVID-19) there was a drastic reduction in Smart Meter installations, which resulted in a decrease in SEC Party requirements for Communications Hubs. DCC worked with industry to reduce the negative impact of UK Government social distancing rules and this resulted in an Urgent SEC Modification Proposal¹ and the development of the Temporary Communications Hub Ordering and Delivery Rules (TCHODR). SEC Panel approved version 1 of the TCHODR on 27 May 2020 and DCC committed to further review and to consult on amendments to the Mid-Term Central and South (C&S) Region ordering requirements.

On 5 August 2020, DCC issued a consultation to invite views on proposed amendments to the TCHODR as required under Smart Energy Code (SEC) Section F5.1A.

The amendments focussed on changes to:

- the TCHODR Mid-Term (January 2021 to and including December 2021) Minimum Communications Hub Orders for Communications Service Provider (CSP) Central and South Regions;
- the Short-Term delivery requirements for the Communications Service Provider (CSP) North Region; and
- the Mid-Term increasing of Communications Hub Orders for all Regions.

The consultation closed on 28 August 2020 and in total three organisations responded. DCC has since continued engagement through the Supply Chain Working Group and bilateral discussions with Energy Suppliers and Meter Asset Providers (MAPs).

1.1. Structure of this document

This document comprises of the following sections:

- The questions that were asked, together with a summary of respondent's views and DCC's responses to these.
- Additional comments received and DCC's responses to these.
- SEC Panel feedback (11 September 2020).
- Supply Chain Working Group Feedback.
- Bilateral Feedback.
- DCC's conclusions.
- SEC Panel decision (16 October 2020) and next steps.

1. ¹ [MP130 "CH order and delivery changes due to COVID-19"](#)

2. Feedback on changes to TCHODR

2.1. Responses to consultation questions

Q1: Do you agree with the proposed solution? Please provide rationale for your views.

This question related to the proposed amendment to the calculation for establishing a Parties Minimum Communication Hub Order Volume in CSP C&S from January 2021 to December 2021, where the calculation would be based on a Party's updated Communications Hub Forecast.

Stakeholders' responses

One respondent agreed with the proposed solution, highlighting that it meets the criteria set out by the Supply Chain Working Group. Another respondent broadly supported the solution, however had reservations as set out in response to question 5.

One respondent did not agree with the proposed solution. They highlighted that the Supply Chain Working Group agreed to minimum order quantities on the basis they could increase orders three months prior to delivery with no penalty. The respondent noted that this has subsequently been removed; and due to further remobilisation, revised smart price cap allowance and completion of revised 2021 planning process, the respondent may need to adjust their forecasts. Therefore, if the respondent was aware that more than three months' notice is required to increase Communications Hubs Orders they would have submitted a higher initial forecast to mitigate the risk of supply chain failure.

DCC's response

DCC notes the concerns in relation to increasing Communications Hub Orders and will provide a full explanation in response to the comments received from Question 4 and 5 in this document.

Q2: Do you consider there to be any additional benefits or issues with the proposed solution? Please provide rationale for your views.

This question related to the proposed amendment to the calculation for establishing a Parties Minimum Communication Hub Order Volume in CSP C&S from January 2021 to December 2021, where the calculation would be based on a Parties updated Communications Hub forecast.

Stakeholder's response

One respondent noted that the proposal avoids the consequences from any solution based on current 2020 Market Share, which would have led to Supplier Parties being obligated to take unwanted Communications Hubs. They also noted the Market Share solution ignored industry developments, such as Supplier mergers and formal extension of the smart meter rollout to mid-2025.

DCC's response

DCC notes the additional benefit highlighted by the respondent.

Q3: Do you agree with the proposed extension to CSP North Short-Term Deliveries timeline? Please provide rationale for your views.

This question related to extending the North Region Short-Term delivery timeline from 31 October 2020 to 31 December 2020 and aligning these dates to the CSP Central and South Region.

Stakeholders' responses

Two respondents agreed with the proposed extension to CSP North Short-Term Deliveries.

One of the respondents highlighted that this measure will provide cost avoidance benefit to Suppliers and will also ensure that the latest CSP North Communications Hub firmware can be received. The respondent requested that the implementation of the revised CSP North Short-Term deliveries are directly related to the timing of the final industry approval of firmware version 2.02.06. They noted that DCC should consult closely with installing Suppliers through this period, as whilst the clear requirement is to only take future deliveries of Communications Hubs that are prepayment compliant, this may need to be balanced against ensuring sufficient stock levels to ensure CSP North credit installs are unaffected.

The other respondent agreed and noted that it would be good to have clarity from DCC that they will only receive Communications Hubs with firmware version 2.02.06 as they need these to support prepayment installs.

One respondent noted that it was their understanding that all consignments are to be delivered by 30 November 2020 and not 31 December 2020. The respondent noted that they are satisfied to receive deliveries from September to November 2020.

DCC's response

DCC can confirm that the Communications Hubs delivered in September to November 2020 will be on the latest firmware version (2.02.06). DCC will continue to engage with industry with regards to the approval of this firmware through industry forums and SEC Sub-Committees and will consult with Parties on individual delivery schedules to coincide with the availability of this firmware.

With regards to delivering Short-Term Delivery Month orders in December 2020, DCC can accommodate this. However, where a Party wishes to receive their orders by 30 November 2020, DCC recommends that this request is communicated to DCC. DCC will work bilaterally with each SEC Party in relation to their Short-Term delivery schedule.

Q4: Do you agree that Parties should provide increased order volume no later than 5 months before delivery to ensure sufficient Communications Hubs can be made available through the supply chain? Please provide rationale for your views.

This question related to aligning the TCHODR requirements for increasing Communication Hub Orders to the SEC BAU requirements.

Stakeholders' responses

Two respondents agreed that Parties should provide increased order volume no later than five months before delivery, with one respondent noting that this is no different from the SEC Business as Usual (BAU) process. The other respondent agreed but requested the following clarifications:

- that the five months only relates to Communications Service Provider (CSP) Central and South and that CSP North orders can be amended three months in advance of delivery; and
- whether the increase to volumes would be based on the forecasts provided by Supplier Parties or their Minimum Communications Hub Order as a result of the proposed calculation.

They also noted that whilst the proposed increase matches the existing SEC arrangements and therefore the default response is to accept, it is an opportunity lost to provide further flexibility as the industry moves into an uncertain period of installation activity, with an increasing probability of a local or a national second COVID-19 lockdown.

One respondent disagreed with the proposal, stating that they had provided forecasts on the basis that increases could be requested three months prior to delivery. They noted that the proposed five months lead time constrains volumes and that they believe that whilst the original intent was to address over supply of Communications Hubs, industry now face the issue of a shortfall. The respondent noted that they will be reliant on the buffer stock available for increases and highlighted that they need to be able to resubmit revised volumes to mitigate the issue of any shortfall. The respondent highlighted that failure to meet the increased requirement will result in the unacceptable position of engineers being unable to stock due to stock shortages.

DCC's response

DCC can confirm that whilst CSP North can accommodate increases to orders within three months of the Delivery Month, there may be some non-standard charges as result of increases within this lead time. Therefore, DCC proposes using the SEC BAU requirements for both CSPs whereby increases can be submitted in accordance with the existing tolerances five months prior to Delivery Month. The non-standard delivery charge shall then apply to any increases submitted less than five months prior to the Delivery Month.

DCC worked with industry to reduce Communications Hub volumes and therefore considers that the that the tolerances used to increase orders should be based on the Minimum Communications Hub Order quantity that is a result of the proposed calculation rather than on the forecasts provided by SEC Parties.

With regards to potential further national or local lockdowns due to COVID-19, DCC commits to working with industry, particularly through the Supply Chain Working Group, to discuss potential actions or required solutions.

Following the implementation of SEC Modification [MP130 'CH order and delivery changes due to COVID-19'](#), DCC was requested to propose a new Minimum Communications Hub Order calculation for the Central and South Region. Following discussions with the Supply Chain Working Group once forecasts were provided by SEC Parties bilaterally to DCC, participants further asked for forecasts to be pro-rated to meet the industry total Minimum Communications Hub Order required by CSP Central and South. With regards to increasing orders and the risk of stock shortages, DCC has undertaken analysis and modelled for each SEC Party a projected burn-

down rate of stock and orders collated through MP130. The below model shows a holistic view of industry for each CSP Region:

CSP North

| Customer | Stock as of July 2020 | Orders | Average Install Rates (6 months pre COVID-19) | Burn down rate to 'zero' |
|----------|-----------------------|---------|---|--------------------------|
| Industry | 802,995 | 594,048 | 72,583 | 19 months |

CSP Central & South

| Customer | Stock as of July 2020 | Orders | Average Install Rates (6 months pre COVID-19) | Burn down rate to 'zero' |
|----------|-----------------------|-----------|---|--------------------------|
| Industry | 1,482,107 | 2,468,696 | 177,316 | 22 months |

DCC recognises that installations rates are due to increase and have since followed up with all ordering SEC Parties to discuss their installation profiles bilaterally. DCC also notes that it will endeavour to use buffer stock and broker reductions in Communications Hub Orders with other SEC Parties to endeavour to provide increased volumes without excessive charges. DCC has also recently raised SEC Modification DP140 'CH Stock Transfer' in order to allow Parties to transfer Communications Hubs to other SEC Parties where they may need them. This modification was presented to the SEC Modification Working Group on 7 October 2020 and a DCC Preliminary Assessment is soon to be requested noting that the earliest possible implementation date is the November 2021 SEC Release.

DCC also notes that the proposed increase tolerances are in line with BAU SEC arrangements. DCC confirms that we're able to explore reducing supply chain lead times, however, DCC considers that a SEC Modification will be required in order to impact assess appropriately and to consider the wider costs to industry.

Q5: Do you agree that where Parties request an increase in Communications Hub volume within five months and 30 days prior to the delivery month that non-standard charges should apply? Please provide rationale for your views.

This question related to aligning the TCHODR non-standard delivery charges for Communication Hub Orders to the SEC BAU requirements.

Stakeholders' responses

One respondent partially agreed that where Parties request an increase in Communications Hub volume within five months and 30 days prior to the delivery month that non-standard charges should apply. The respondent noted that it was their understanding that CSP North would be able to increase volume up to three months prior to delivery and therefore non-standard charges for CSP North should be applied in these reduced timeframes.

The respondent also expressed support for the intra-stock movement proposal raised by DCC. They noted that this will provide a mechanism for DCC to satisfy customers' requirement to increase/decrease Communications Hubs stock requirements in a more agile manner with correct allocation of charges to the appropriate SEC Parties.

Two respondents disagreed with the proposal, with one stating that this aspect needs to be further examined in a fully open and transparent manner; perhaps requiring further discussion at the Supply Chain Working Group. The other respondent also noted that they believed that orders could be amended three months prior to delivery and highlighted that they have already requested increases to their February 2021 order given the revised proposal is constrained by the compliance rules.

DCC's response

As previously mentioned, whilst CSP North can accommodate increases to orders three months before the Delivery Month, there may be some non-standard charges as a result of increases within this lead time. This is because these orders will require processes outside the CSP North's business model i.e. accelerated shipping and processing methods which will result in additional costs. Therefore, DCC proposes using the non-standard delivery arrangements to cover these non-standard charges.

2.2. Additional comments to consultation

Stakeholder's response

One respondent noted that whilst they welcome the changes to Communications Hub ordering that V1.0 of the TCHODR and the additional changes proposed in this consultation will introduce, they believe it is worth noting the onerous and restrictive terms initially agreed with CSPs which contributed to the need for these changes, and that the post COVID arrangements made are also at markedly inferior terms to Smart Metering market norms.

The respondent also noted that Suppliers participating in the Supply Chain Working Group have voiced the lengthy Communications Hub lead times and lack of flexibility in forecasts, when compared to the forecasting and ordering norms that Suppliers have achieved with numerous Meter and Pre-Payment Meter Interface Device (PPMID) manufacturers. Many of these meter and PPMID manufacturers also have eastern European and Far East sources of manufacture, and the lengthy commitments Suppliers are subjected to for Communications Hubs are materially above the range of market standards. Whilst the short-term arrangements for COVID have been positive, the respondent noted the same cannot be said for the balance of agreements with CSPs. Working collaboratively with their Supply Chains, they highlighted that no Supplier has faced having to make commitments beyond 2020. The need to commit to take Communications Hub volumes to

the end of 2021 can only be viewed as an excessive period being commercially imposed on Suppliers who have little choice to accept.

The respondent requested that DCC implement discussions to revise terms with their CSP and Communications Hub Supply Chain partners, noting that this will be essential for the Next Generation Communications Hub procurement and roll-out, but also for 2024 onwards. The respondent believes the existing forecast and ordering conditions will not be fit for purpose by DCC Users as they enter the final stages of the Smart Metering roll out. Without amendment, the current processes will result in excessive stockholding and additional unnecessary costs as DCC Users have to balance winding down of main roll-out activity against lengthy lead time and commercial commitments for Communications Hubs.

DCC's response

DCC notes the commitment to 2021, however, DCC considers that legal certainty was required that SEC Parties will take minimum order quantities in order to protect the supply chain.

Where SEC Parties wish to review the current SEC arrangements in relation to forecasting and ordering, DCC recommends that a separate SEC Modification Proposal is raised to appropriately assess the long-term impacts and costs to reduce Communications Hubs lead times.

3. SEC Panel Feedback (11 September 2020)

On 11 September 2020, DCC presented the consultation responses and TCHODR to the SEC Panel to request whether it is suitable for re-designation.

The Panel reiterated concerns in relation to increasing Communications Hub Orders and noted that it was difficult for the Panel to make an informed decision with only three consultation respondents, all of whom had raised concerns.

The Panel agreed to postpone approving the TCHODR until there had been a further Supply Chain Working Group meeting to discuss the consultation response document, allowing for additional comments to be considered before considering the changes again.

DCC agreed to provide the Panel with a subsequent paper for decision, which would include details of the Supply Chain Working Group representatives and details of any additional comments, as requested by Panel. The Panel also asked DCC to ensure Small Supplier views were taken into account.

4. Supply Chain Working Group Feedback

The Supply Chain Working Group met on 15 September 2020. The following organisations were in attendance:

| Representative | Supplier Party Category |
|-------------------|-------------------------|
| British Gas | Large Supplier |
| Bulb Energy | Large Supplier |
| EDF | Large Supplier |
| E.ON | Large Supplier |
| Utility Warehouse | Large Supplier |
| Calvin Capital | Other SEC Party |
| Magnum | Other SEC Party |
| SMS | Other SEC Party |

DCC notes that all SEC Parties who have engaged with DCC on ordering Communications Hubs, particularly Small Supplier Parties, were invited to this Supply Chain Working Group. DCC recognises that Small Supplier Parties were unable to attend this meeting and therefore proposed arranging bilateral meetings with all SEC Parties to explain the TCHODR and to seek views on the amendments.

DCC presented the consultation responses and DCC's response to the Supply Chain Working Group and requested that the group provide their views on the amendments to the TCHODR.

One member highlighted that they understood the intention to separate the assessment of reducing the lead times for increasing Communications Hubs Orders by raising a separate SEC Modification Proposal. However, they also noted that there is still some confusion in relation to the lead times for increasing orders in the CSP North Region. DCC noted that increases to orders, with less than 5 months' notice, in the CSP North Region and the Central and South Regions can be accommodated without non-standard charges where buffer stock is available. DCC also highlighted that non-standard charges will only apply where it falls outside of the CSP's business models i.e. where stock needs to be expedited or air freighted to meet demand.

One respondent also queried whether the CSP North buffer stock is on firmware version 2.02.06. DCC confirmed that all stock to be delivered in CSP North will be on the latest firmware version.

To conclude, all the respondents agreed with the proposed amendments on the basis that DCC holds bilateral discussions with each ordering SEC Party in order to confirm their preferred Communications Hubs order volumes/demand in Q1 and Q2 2021. Feedback from those bilateral discussions is presented below.

5. Bilateral Feedback

DCC held bilateral meetings with all the SEC Parties who had submitted orders. The below table lists each organisation that was contacted and the relevant Supplier Party Category.

| Representative | Supplier Party Category |
|-------------------------|-------------------------|
| AES Smart Metering | Other SEC Party |
| British Gas | Large Supplier |
| Bulb Energy | Large Supplier |
| Calvin Capital | Other SEC Party |
| E (Gas and Electricity) | Small Supplier |
| E.ON | Large Supplier |
| EDF Energy | Large Supplier |
| Electricity Plus Supply | Small Supplier |
| IMServ Europe | Other SEC Party |
| Magnum Utilities | Other SEC Party |
| Morrison Data Services | Other SEC Party |
| Octopus Energy | Large Supplier |
| OVO | Large Supplier |
| Pure Planet | Small Supplier |
| Scottish Power Energy | Large Supplier |
| Simplicity Energy | Small Supplier |
| SMS Meter Assets | Other SEC Party |
| So Energy | Small Supplier |
| SSE Energy | Large Supplier |
| Together Energy | Small Supplier |
| Utilita Energy | Large Supplier |

DCC discussed each Party's Minimum Communications Hub Order if the amendments were to be approved by the Panel and sought whether Party's would request an increase based on the order quantity provided. Following all the bilateral meetings, DCC can confirm that the potential increases submitted by a number of SEC Parties do not currently exceed the buffer stock that is currently held by DCC. No further comments were received on the proposals and all the contacted Parties agreed that the changes should be made to the TCHODR. Furthermore, all ordering SEC Parties have confirmed their Communications Hub Orders for January to June 2021.

6. SEC Panel Decision (16 October 2020)

DCC presented the consultation responses, the outcome of additional Supply Chain Working Group discussion and details of Energy Supplier and MAP bilateral discussions, as noted in this document, to the SEC Panel 16 October 2020. The SEC Panel approved the changes consulted on in the TCHODR.

7. Next Steps

Version 2 of the TCHODR has been designated and is considered active from 16 October 2020 and the updated version was published on the DCC Website here -

<https://www.smartdcc.co.uk/document-centre/communications-hubs/communications-hub-order-policy/>

DCC will continue to chair the Supply Chain Working Group on a monthly basis and members have expressed their support to do so. The Supply Chain Working Group will continue to consider matters relating to the supply of Communications Hubs and will work with SEC Operations Group to address any issues that arise.