Data Communications Company

Consultation on proposed changes to the Temporary Communications Hub Ordering and Delivery Rules

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Table of Contents

1. Background

In early 2020, DCC worked with Smart Energy Code (SEC) Parties and Communication Service Providers (CSP) to consider amendments to the Communications Hub (CH) forecasting, ordering and delivery rules as defined in the SEC. These changes were in a direct response to the COVID-19 pandemic and UK Government lockdown rules which resulted in a noticeable reduction in Smart Meter installations and an associated reduction in the number of CHs required for delivery.

To enable deferred delivery of ordered CHs and a reduction in the number of CHs to be delivered in the future, a change to the SEC was implemented. The change was progressed under SEC-MP130 and implemented in May 2020 to allow for SEC rules to be temporarily overridden through the Temporary Communications Hub Ordering and Delivery Rules (TCHODR).

The SEC modification included a sunset clause which ended the allowance of the TCHODR from 1 January 2022 when it was assumed COVID-19 issues would be resolved and standard SEC forecasting, ordering and delivery rules could resume.

Since then, issues with the supply of CHs have persisted and in 2021, have on occasion, impacted on the ability to deliver the ordered volume of CHs in the month requested. Whilst there have been some delays to both Single Band and Dual Band CHs, this hasn't manifested in non-fulfilment of orders and dates have been re-arranged with customers.

There is growing concern within the supply chain that the availability of raw materials, used in the silicon chip wafers that are necessary to manufacture CH components, is becoming more difficult to source. Following the worldwide pandemic that impacted manufacturers, there has been a significant growth in demand driven by connected devices in cars, IT for homeworking and other unforeseen issues, including a fire at a major manufacturing facility and major drought in Taiwan that have exacerbated the issue.

Increases in lead times and demand / competition, across multiple components, has risen to an extent that the current forecasting and ordering arrangements with Suppliers are not sustainable in the current environment. Some of the types of component currently most at risk are the System on a Chip (SOC), modem and power components with increasing costs and high demand. The current output from Silicon Fabricators is not meeting the demand.

There is a growing trend that firm order commitments are being given by other industries for the whole of 2022 to secure supply in a highly competitive environment that is adopting a 'first in first serve' approach. The CH supply chain risks being a lower priority unless steps are taken beyond the current 5 months commitment. It is understood that meter manufacturers and In Home Display (IHD) providers are making similar assessments.

DCC has worked closely with the supply chains throughout 2021 to mitigate risks and some of the actions taken include:

- Customer engagement to increase forecast visibility beyond 10-months to support CSP component modelling for future industry demand;
- Some components ordered at higher end of forecasts;
- Increased diversification of component suppliers and products such as with the A7 Chip for EDMI, the Power Amplifier for Toshiba, second source for some passive components such as resistors, capacitors, diodes, inductors; casing and packaging
- Air freight used to offset sea freight timeframes at a cost of £5M+ in 2021;
- Some buffer stock held by CSPs;

- Re-flashing of CH opportunity & Refurbished stock pilot in North;
- Monitoring of stock levels & install rates across industry;
- Supporting Customers with non-standard order requests - balancing volumes where possible; and
- Secondary Manufacturing plants for both WNC and Toshiba have been opened in China to support demand and allow for extra resilience with the ongoing Global Supply Chain challenges

DCC has been engaging with Customers throughout 2021 presenting regularly to the Supply Chain Working Group, along with SEC Operations and Smart Meter Delivery Group (SMDG) to position the challenges faced in 2022 and to share steps being taken in attempt to address them. DCC has also engaged with Customers bilaterally in order to review their individual positions and ensure the forecasts they have submitted meet their requirements for installation plans in 2022.

DCC has also engaged with BEIS regarding industry level install targets for 2022 and conducted due diligence against current forecasts, stock and projected supply.

DCC notes there are a number of other CH related SEC Modifications in development, such as MP140 Intra Stock Transfer and DP155 CH Re-flashing, however neither of these modifications are forecast to be able to be implemented early enough to help mitigate the challenges faced in 2022.

DCC investigated possibilities to try and secure specific components, however a component only approach has been discounted as this would not be SEC compliant for DCC to commit such spend. The shifting landscape, in terms of which components are affected, means that it would be complex to attempt to commercially flow down to a supply chain that has been built to support CH orders and not specific components.

To enable the CSPs to provide a firm commitment to the supply chains for CH orders delivered in 2022, and help mitigate the increased risks of not sourcing all component volumes needed, DCC identified, through risk mitigation activities, that a modification to the TCHODR would help to reduce the CH delivery risk. DCC considers that an extension of the TCHODR is required to provide increased certainty on the volume of CH required in any month and allow for CH components to be secured with advanced lead times.

To this end, DCC has proposed a SEC Modification which would see amendments made to SEC F5.1A which would remove the sunset clause of the validity period of the TCHODR and require any future changes to the TCHODR include an expiry date.

The current TCHODR contains end dates for those rules agreed in 2020 as part of the original rule document. The proposed modification would not implement any changes to the TCHODR but allow a set of rules to be agreed. A separate DCC consultation and SEC Panel Approval are required to implement any changes to the TCHODR, this consultation seeks views on proposed TCHODR changes.

The SEC Modification provides the allowance for temporary rules to be considered for any unforeseen issues that may arise in the future, should that be global supply issues as experienced currently or any other issue experienced by either DCC or a SEC Party.

In order to maximise supply chain risk mitigation within 2022DCC considers that amendments to the TCHODR should be agreed as soon as possible. Therefore, DCC has been working on the proviso that the SEC Modification for the TCHODR validity period extension will be approved,

and in parallel is consulting now on potential changes to the TCHODR so that they are ready in advance.

DCC will review consultation responses and consider whether the new TCHODR has industry support and what those rules should require. Proposed TCHODR, along with consultation feedback will be presented to SEC Panel in December for consideration and final approval before being implemented. Any changes to the TCHODR proposed in this document will be withdrawn should the SEC Modification to extend the TCHODR validity period be rejected.

None of the options presented include any additional cost to industry. DCC presents four potential options below and respondents are requested to consider each and respond with comments as directed.

1. Option One presents a do-nothing approach with regards to SEC obligations and would not see the implementation of any new TCHODR.

2. Options Two would see TCHODR agreed and implemented which would override standard SEC obligations and provide the supply chain with increase certainly on CH volume required through 2022 and reduce the risk of under supply or order deferral.

3. Option Three is similar to Option Two but allows different tolerances for the CSPs. This option was created following customer feedback.

4. Option Four is similar to Option Three with the provision of stocking relief

Published with this consultation are proposed TCHODR to implement Options Two and Three. DCC have not provided a tracked change version from the previous rules since those rules covered CH orders already completed and no longer apply.

DCC will continue to actively manage the risks and issues with the supply chain under any option and will monitor changes in the global supply issues which may impact CH availability beyond 2022. DCC will continue to work closely with CSPs to ensure appropriate mitigating actions are taken and to understand risks.

In early Q1 2022, DCC will start to engage with Customers regarding the CH ordering requirements for 2023. DCC will consider, whether this can be done under the standard SEC process, if continued revisions need to apply or some other form of transition back to the standard SEC process

2. Supply Chain issues – further clarity on issues impacting CH production and delivery

A summary of key issues; -

- Extended lead-times for securing components for CH manufacture that were typically 16 weeks lead-time, are now over 12 months in many cases and up to 101 weeks, resulting in the current tolerances no longer being sustainable. In the current operational context, the supply chain component ordering requirements is now misaligned with the current forecasting & ordering arrangements. At present, Customers can submit their first binding forecast 10 months before delivery but then could vary this by +/- 50% at 7 months forecast. These wide variances do not provide the many elements comprising the supply chain with the levels of certainty or confidence needed in order to source components at the significantly longer lead-times now being experienced.

- Demand exceeds supply across global component market and increasingly firm order commitments are being given by other industries for 2022. This risks the CH supply chain being deprioritised without firmer commitments than at present.

- Some components are niche for the CH, which creates additional risk that manufacturers will favour more lucrative or generic components. In addition, component costs are also increasing but these costs have not been passed onto Customers.

- Forecasts have not been consistent over the last 2 years, with order books being significantly reduced in 2020 to support Customers' reduced requirements, followed by rapid increases in 2021, but this has meant inconsistent demand and when paired with the current tolerances, do not provide the required level of certainty to the supply chain.

- Time constraints to address the near-term issue of supply chain availability within 2022 means that there is not sufficient time to develop more radical change options to the CH ordering process, such as DCC centrally coordinating and placing CH forecast orders for industry. Following the typical SEC Modification process would mean these changes would not be able to be implemented in sufficient time to mitigate the component lead time challenges the supply chain has raised.

3. Options for amendments to the TCHODR

Two options are presented below for consideration by respondent. DCC ask that detailed responses to each question are provided, including the option supported by the respondent and their rationale, and the options not supported by respondents and their rationale.

A summary of benefits and drawbacks for each option is also provided below.

3.1. Option One – do nothing

Option One is to retain standard SEC requirements. DCC, however, considers the current global supply chain issues to be creating a scenario where standard SEC requirements on CH forecasting and ordering do not address the risks outlined to allow for the efficient and timely production and delivery of CHs.

This option would not provide the supply chain with the increased certainty required to obtain components for CH production and would not reduce the risk that CH delivery would fall below the volume ordered by SEC parties. The variance from a 10 month binding forecast is a 100% potential swing between +50% increase down to -50% decrease.

DCC would continue to keep SEC Parties informed of ongoing issues but may not be able to deliver CHs at the time and volume agreed. Where orders cannot be made, DCC may consider further OPR exceptional event relief applications. Alternatively, it may need to consider order rejection or partial acceptance as allowed under SEC F5.17 or order deferral under SEC Appendix H Delivery Changes.

This option would not remove or reduce the risk currently seen in the supply chain. It also does not therefore remove the risk that deliveries may be made at lower quantities than ordered or see delivery dates deferred to a reasonable alternative.

Question 1
Do you support / prefer Option One? Please provide a rationale for your response.

3.2. Option Two – commit to current forecast volumes with 10% tolerance

Option Two would take each Party's submitted Communications Hub forecast volume, submitted to the DCC via the Order Management System, as of December 2021 for each delivery month June 2022 up to and including December 2022. These submitted volumes will be used for calculating allowable variance when Party's submit final Orders.

The standard SEC tolerance variances applied at 10, 7 and 5 months would not apply.

At five months from the delivery month the order volume can be confirmed, and the forecasted volume submitted in December 2021 can be amended 10% up or down.

DCC would take an industry-wide perspective on managing order variances to apply the tolerances. This would allow an individual SEC party to request a volume change by greater than 10%, subject to balancing across industry. The balancing approach is best efforts subject to the collective position across industry.

This option provides increased certainty to the supply chain for securing CH components in 2022 and decreases the risk of not being able to secure components to produce and deliver sufficient CHs.

DCC acknowledges that this removes some of the flexibility but following engagement with Customers, believes that this is an acceptable measure in an effort to secure supply under challenging global market conditions.

Question 2

Do you support / prefer Option Two? Please provide a rationale for your response.

3.3. Option Three – commit to current forecast volumes with different tolerance applied to each CSP

Option Thee would take each Party's submitted Communications Hub forecast volume, submitted to the DCC via the Order Management System, as of December 2021 for each delivery month June 2022 up to and including December 2022. These submitted volumes will be used for calculating allowable variance when Party's submit final Orders.

The standard SEC tolerance variances applied at 10, 7 and 5 months would not apply.

For CSPN and the forecasted volume submitted in December 2021 could be amended 10% up or down.

For CSPC&S the forecasted volume submitted in December 2021 could be amended by 10% for increases and by 20% for decreases.

DCC would take an industry-wide perspective on managing order variances to apply the tolerances. This would allow an individual SEC party to request an order volume change at a greater percentage change, subject to balancing across industry. The balancing approach is best efforts subject to the collective position across industry.

This option provides increased certainty to the supply chain for securing CH components in 2022 and decreases the risk of not being able to secure components to produce and deliver sufficient CHs

DCC acknowledges that this removes some of the flexibility but following engagement with Customers, believes that this is an acceptable measure in an effort to secure supply under challenging global market conditions.

This option would result in different service between CSPs but offers greater flexibility in CSPC&S.

Question 3

Do you support / prefer Option Three? Please provide a rationale for your response.

3.4. Option Four – commit to current forecast volumes with Stocking fee relief for CSPN

Option Four would be the same as Option Three but with the addition of stocking fee relief for CSPN.

A further 10% decrease would be afforded, allowing Customer to decrease their order volume by 20% and therefore providing parity with SCPC&S.

If the DCC cannot maintain the minimum 10% aggregated order tolerance for the order month, then any reductions between the 10% to the 20% tolerance DCC would deliver those CHs to the Customer and would provide a stocking fee relief against that delta.

DCC will develop fair play conditions for application, in conjunction with Customers to refine the working detail. The stocking fee relief would be applied on the delta for a period of 3 months or until the delivery consignment begins to be installed and commissioned, or sooner based on typical stock levels, whichever is earlier.

It is anticipated that the maximum stocking fee relief across industry for 2022 could be in the region of £100,000. To implement the stocking fee relief DCC propose that the total cost is socialised across CH ordering Parties and will be calculated using the correction factor in the Charging Statement.

Question 4

Do you support DCC working with Customers to develop this approach in favour of Option Three? Please provide a rationale for your response.

3.5. Summary of benefits and drawbacks

Option	Benefits	Drawbacks
Option One –	• No changes to understand or implement in CH ordering through 2022	• 2022 Supply chain risk is not reduced • CH delivery falls below ordered volume • Smart Meter installation volume not maintained • Smart meter installation targets not achieved • Consumers unable to realise the benefits of Smart Meters
Option Two -	• Decreases supply chain risk • Increases likelihood of maintaining Smart Meter installation volumes • Increases likelihood of achieving Smart Meter installation targets • Consumers realise the benefits of Smart Meters	• Parties required to understand and order against new rules • Decreased variability from forecast to order allowed
Option Three -	• Decreases 2022 supply chain risk • Increases likelihood of maintaining Smart Meter installation volumes • Increases likelihood of achieving Smart Meter installation targets • Consumers realise the benefits of Smart Meters • Enhanced flexibility to reduce order volumes in C&S versus Option Two	• Parties required to understand and order against new rules • Decreased variability from forecast to order allowed • Differences in order variability between CSP
Option Four -	• As with Option Three • Reduces risk to individual parties of overstocking fees	• As with Option Three • Cost of reduced orders socialised across all CH ordering Parties.

4. Next Steps

This consultation closes 9th December. Responses should be sent to consultations@smartdcc.co.uk. If you have any questions regarding this consultation document or detail within, please contact consultations@smartdcc.co.uk

Full and detailed responses are requested so that progression to recommendations can be fully informed. Working on the proviso that the SEC Modification will be approved DCC will review consultation responses and consider whether new TCHODR have industry support and what those rules should require. In December the proposed TCHODR, along with consultation feedback will be presented to SEC Operations Sub Group for comment, and to SEC Panel for consideration and final approval before being implemented.

Any changes to the TCHODR proposed in this document will be withdrawn should the SEC Modification be rejected.

5. How to respond

Please provide responses by 17:00 on 9th December to DCC at:
consultations@smartdcc.co.uk

DCC will complete a summary of questions, comments and responses to be shared with SEC Panel and be added to the documentation of the consultation. DCC may also share responses with SECAS to inform the SEC Modification linked to the proposals contained in this consultation.

Consultation responses may be published on our website www.smartdcc.co.uk. Please state clearly in writing whether you want all or any part, of your consultation response to be treated as confidential. It would be helpful if you could explain to us why you regard the information you have provided as confidential. Please note that responses in their entirety (including any text marked confidential) may be made available to the Department of Business, Energy and Industrial Strategy (BEIS) and the Gas and Electricity Markets Authority (the Authority). Information provided to BEIS or the Authority, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004). If BEIS or the Authority receive a request for disclosure of the information we/they will take full account of your explanation (to the extent provided to them), but we/they cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.