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

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1. Background

In early 2020, the Data Communications Company (DCC) worked with Smart Energy Code (SEC) CH ordering Parties (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 tough the Temporary Communications Hub Ordering and Delivery Rules (TCHODR).

Issues with the supply of CHs have persisted through 2021 and in to 2022, and 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.

The availability of raw materials, used in the silicon chip wafers that are necessary to manufacture CH components, remain 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, have exacerbated the issue.

Increases in lead times and demand / competition, across multiple components, have risen to an extent that standard SEC CH forecasting and ordering arrangements with Parties are not suitable in the current environment.

There is a growing trend that firm order commitments are being given by other industries 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 where orders cannot be committed to on a longer basis.

DCC engaged with customers throughout 2021 and early 2022 at the Supply Chain Working Group, SEC Operations Group (SEC OPSG) and the Smart Meter Delivery Group (SMDG) to position the ongoing challenges faced and actions being taken 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 and in to early 2023.

DCC notes that there are a number of CH related SEC Modifications in development, such as MP140 Intra Stock Transfer and MP155 CH Re-flashing. The common theme across these modifications is to ensure optimisation of existing, not yet installed CH stock either with Energy Suppliers or with the CSPs. Both modifications are targeting implementation before the end of 2022. However, since the outcome and certainty of implementation dates of these modifications are still uncertain, DCC believes additional steps to secure CH supply in to 2023 are required.

In late 2021 DCC engaged with customers, including bilaterally and through the SMDG, to consider whether TCHODR could help to reduce the risk of CH under supply. In November 2021 DCC issued a consultation with options for new temporary rules and sought feedback. DCC presented the consultation options and responses to SEC OPSG which was followed by engagement with SEC Panel. In December 2021 SEC Panel agreed the implementation of version three of the TCHODR, these rules covered forecasting and ordering requirements for delivery months June to December 2022. At this time DCC committed to engage with customers in early

2022 and consider what risk to 2023 CH supply might remain and whether additional TCHODR might be required.

Further ahead, it is not known when the issues seen in the global supply chain will abate, and DCC considers that CH supply chain uncertainty should be considered into late 2023, particularly when some component lead times are greater than 12 months. DCC have, through January and February 2022, engaged with customers and CSPs to consider what potential requirements for CH forecasting and ordering would provide the certainty required to secure supply while also offering customers sufficient flexibility and stability in their forecasting and ordering requirements.

DCC proposes that a form of continued TCHODR for January 2023 and beyond are required to secure supply, and that any rules should be reviewed and extended where the global supply chain continues to present a risk to CH supply. This consultation proposes new TCHODR and seeks feedback from Parties.

DCC has also begun work to consider the standard SEC requirements regarding CH forecasting and ordering and will continue to work with Parties and CSPs before raising a SEC Modification for wider review. DCC recognises the preference to establish revised standard ordering rules which do not apply under a temporary validity period, and it is DCC's intention that the rules which supersede the rules which are an outcome of this consultation will be the new, standard rules.

Once consultation responses have been received, DCC will consider if stakeholders support the implementation of these TCHODR and whether any amendments to the rules proposed in the TCHODR are required. Where the TCHODR receive support DCC will present details to March SEC OPSG for any additional feedback, before presenting to April SEC Panel to seek approval to implement additional TCHODR.

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

1. Option One presents a do-nothing approach with regards to SEC obligations and would not see the implementation of any new TCHODR in to 2023, rather moving back to standard SEC requirements which were in place prior to May 2020.

2. Option Two would see TCHODR agreed and implemented which would override standard SEC obligations. This would provide the supply chain with increase certainty on CH volume required in to 2023, it would reduce the risk of under supply or order deferral and it increases flexibility / order tolerance from today's TCHODR rules increasing flexibility for customers to amend their orders by +/- 20% delivering an aligned approach across both CSP regions.

Published with this consultation are the proposed TCHODR to implement Option Two.

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

2. Options for amendments to the TCHODR

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

2.1. Option One – do nothing

Option One would move to the standard SEC requirements for forecasting and ordering for delivery months January 2023 and beyond, and not implement any new TCHODR. This would see standard forecasting and ordering requirements implemented for deliveries due in January 2023. 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 Parties. The variance from a 10 month binding forecast is a potential swing between +50% increase down to -50% decrease which DCC believes is unsustainable in the current climate.

DCC would continue to keep Parties informed of ongoing issues but may not be able to deliver CHs at the time and volume requested. Where orders cannot be made, DCC may consider further OPR exceptional event relief applications. Alternatively, DCC 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 expected to continue in the supply chain in to 2023. 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 One
Do you support / prefer Option One? Please provide a rationale for your response.

2.2. Option Two – commit to early forecast volumes with 20% tolerance

Option Two would see the implementation of additional TCHODR to cover delivery months January 2023 onwards.

Deliveries for January through to March 2023 would be based on each Party's submitted Communication Hub forecast volume, submitted to the DCC via the Order Management System, in April 2022. These submitted volumes will be used for calculating allowable variance when Parties submit final Orders.

For delivery months April 2023 and onwards, volume would be based on each Party's submitted Communication Hub forecast volume, submitted to the DCC via the Order Management System, 12 months in advance of the delivery month. These submitted volumes will be used for calculating allowable variance when Parties submit final Orders. See section 3 for further guidance around the expiry of this option.

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 either in April 2022 or 12 months in advance, can be amended 20% up or down regardless of which CSP region the order is against ensuring an aligned approach across all regions.

DCC would take an industry-wide perspective on managing order variances to apply the tolerances. This would allow an individual Party to request a volume change by greater than 20%, subject to balancing across industry. The balancing approach is best efforts subject to the collective position across industry however represents an important additional level of flexibility where able to be supported.

This option does not remove all risk of CH delivery disruption within 2023, however it does take steps to provide the CSPs with the additional ordering information which seeks to minimise the risk of order disruption.

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

3. Timings and expiry date

SEC requires that the TCHODR contain an expiry date. To provide stability for Parties, while also balancing the need to secure the supply chain for CH production and delivery, DCC has considered how best to implement any new TCHODR and the method by which to extend the rules should that be required.

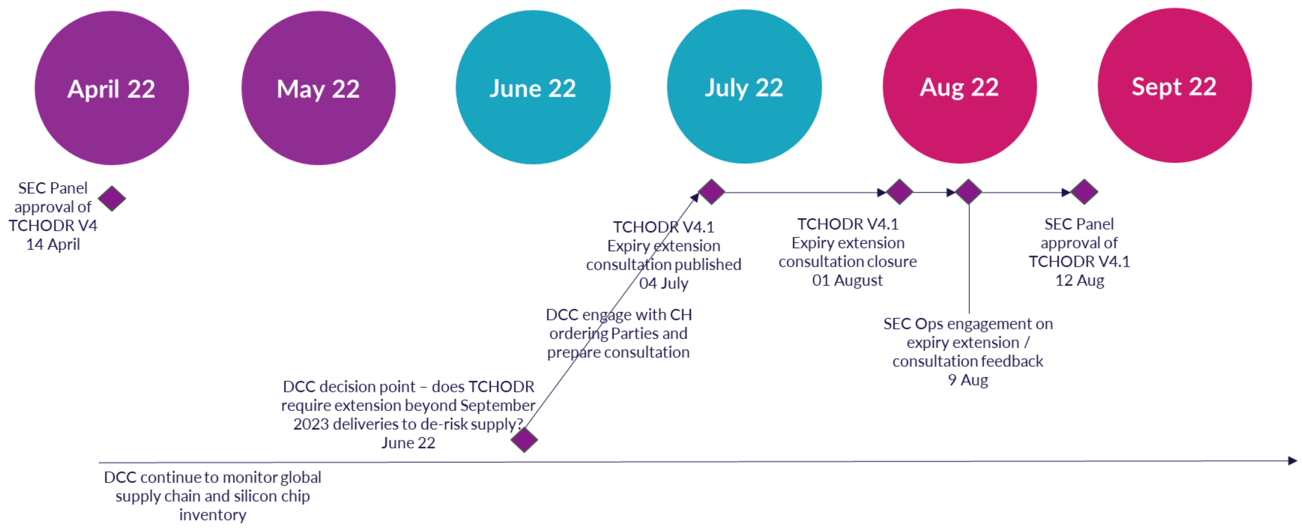
The rules presented with this consultation have been developed in such a way that would allow them to end at a given expiry date and be extended through consultation while, where the environment of global supply issues allow, keeping the rules static. If an extension was deemed necessary DCC would consult with Parties in a manner that would allow an extension to the rules while also allowing the 12 month forecast requirement to continue.

DCC has considered when the TCHODR consulted on here should expire and first considered an initial six month validity period which would see these rules apply up to delivery month of June 2023. However, this approach is not considered efficient since a consultation to extend their validity period and continue to allow for the 12 month forecast would need to be completed by June 2022. Given that this would require immediate consultation following the request of SEC Panel approval of the TCHODR, and that it is not believed that sufficient information on the global supply issues would be available at that time, DCC do not consider an initial expiry date of June 2023 to be appropriate.

DCC therefore propose that these rules have an initial expiry date of September 2023 and would therefore provide the requirements of forecasting and ordering up to the delivery month of September 2023.

Should it be considered that an extension to the TCHODR would provide a benefit to the supply chain by their application beyond delivery month September 2023 DCC will engage with CH ordering Parties and consult with industry to extend the date. DCC would seek SEC Panel approval for an extension no later than September 2022 to allow for the 12 month forecast requirement to continue. The timeline below provides details of the steps required to complete a further consultation should the rules need to be extended beyond delivery month September 2023.

Example TCHODR refresh timeline



DCC will continue to monitor the global supply chain and where it is considered that TCHODR can be ended early to allow Parties to move back to SEC standard requirements, DCC will consult to bring forward the expiry date.

Question Three
Do you support an initial TCHODR end date of September 2023? Please provide a rationale for your response.

4. Next Steps

This consultation closes 21 March 2022. 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 of any new TCHODR can be fully informed. Once consultation responses have been received DCC will consider if stakeholders support the implementation of these TCHODR and whether any amendments to the rules proposed in the TCHODR are required. Where the TCHODR receive support DCC will present details to March SEC OPSG for any additional feedback, before presenting to April SEC Panel to seek approval to implement additional TCHODR.

5. How to respond

Please provide responses by 17:00 on 21 March 2022 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.