Data Communications Company

Consultation Conclusion on Proposed Changes to the Temporary Communications Hub Ordering and Delivery Rules

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Author: consultations@smartdcc.co.uk
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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).

In early 2021 it became apparent that there were restrictions in the global supply of silicon chips and that the reduced inventory was impacting manufacturers' ability to produce CHs at the forecasted volume. 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 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 progress. MP140 Intra Stock Transfer was approved at the 23 March Change Board under Self-Governance with a targeted go live in November 2022. MP155 CH Re-flashing is also in development. 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. However, since the volume of CH available for transfer at any time is uncertain, and the outcome and certainty of implementation date for MP155 is 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 approved 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 mitigated into late 2023, particularly when some component lead times are greater than 12 months. DCC have, through January and to March 2022, engaged with customers and CSPs to consider what potential requirements for CH forecasting and ordering would provide the certainty required to mitigate supply risks, while also offering Parties sufficient flexibility and stability in their forecasting and ordering requirements.

DCC proposed that a form of continued TCHODR for delivery months January 2023 and beyond are required to mitigate supply risks, and that any rules should be reviewed and extended where the global supply chain continues to present a risk to CH supply. On 1 March 2022 DCC published a consultation which included proposed TCHODR covering delivery months January 2023 to September 2023.

This consultation conclusion document provides a summary of consultation responses and details the outcome of the 14 April SEC Panel decision.

2. Customer feedback and consultation responses.

DCC presented two options in the consultation. The first option was to do nothing and revert back to SEC standard rules from delivery month January 2023. The second option was to implement TCHODR which amends the forecasting and ordering requirements for delivery month January 2023 and DCC proposed that those rules should run up to and including delivery month September 2023.

DCC received eight responses in total.

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

This question asked respondents if they preferred to revert to SEC standard rules from delivery month January 2023 onwards.

Only one respondent preferred this approach, the respondent noted that their low order volumes would effectively result in zero tolerance between forecasted volume to order volume, in part due to the requirement for orders to be full pallets and pallet layers. DCC recognise this issue but considers that reducing the CH supply chain risk to be a higher priority.

Other respondents noted that this option did not reduce the CH supply chain risk and that this was therefore not their preferred option.

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

This question asked respondents if they preferred the implementation of TCHODR as described in, and provided with, the consultation.

Seven respondents agreed with the implementation of TCHODR noting that while they reduce flexibility from standard SEC rules, they would provide the supply chain with increased certainty and help to mitigate the risk of CH under supply. One respondent did not agree with this option for the reasons noted above.

Two respondents noted that the rules should be reviewed should the supply chain issues ease or in the event of an unforeseen scenario such as another UK lockdown. DCC will continue to monitor the supply chain to assess whether rules could be eased or ended early and will take actions to do so should this be the case. DCC also commits to reviewing the rules should another unforeseen scenario occur and where it is possible to offer review.

Two respondents noted the rules would place additional commercial risk on Parties, where it is understood the reduced ability to decrease from forecasted level could lead to an overstock of CHs and their associated charges. DCC considers that risk mitigation to help ensure CH supply should be the priority and has taken steps to align tolerances across all regions ensuring parity for all customers.

One respondent considered that in a Supplier of Last Resort scenario the gaining supplier should be given preferential access to that additional CHs. DCC considers this to be a reasonable request and will work with any gaining suppliers, but also note that the scenario of other Parties should also be considered.

One respondent noted that trilateral discussion may be beneficial between a Party, Ofgem and DCC when 2023 installation targets are agreed. DCC is open to participating in those discussions.

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

Question three related to running the rules up to and including for delivery month September 2023.

Four respondents answered this question, and all were in favour of this approach. DCC commits to reviewing the end date should supply chain issues ease to an extent that SEC standard rules could be implemented. DCC may engage and consult on extending, with possible amendment of the rules, should it be considered that risk mitigation is required beyond September 2023.

3. Next Steps

DCC presented details of the TCHODR and customer feedback to SEC Panel at the 14 April meeting and asked Panel to consider approval of TCHODR. Panel approved the implementation of the TCHODR to cover delivery months January 2023 up to and including September 2023.

TCHODR V4.0 is published alongside this consultation response and available on the DCC website and these rules now apply. DCC will work to ensure all CH ordering Parties are aware of the implementation of TCHODR.

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