



DCC Consultation on 4G Communications Hub Financing Arrangements

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1. Executive Summary

1. The Data Communications Company (DCC) is Britain's digital energy spine, supporting the transformation of the energy system. Communication Hubs (CHs) allow for smart meters installed in homes and businesses to be connect to the DCC's secure network, facilitating the transmission of energy consumption data and other smart services.
2. DCC is working to upgrade the smart meter network with a cost-efficient 4G CH solution so that homes and small businesses continue to benefit from smart metering as 2G/3G sunsets by the end of 2033. DCC retains ownership and is charged for CHs, which are provided to Energy Suppliers who are in turn charged on a monthly basis for each CH they are responsible for.
3. DCC enters into arrangements with a Communication Hub Asset Provider (CHAP) to supply CHs to DCC - this arrangement has a cost. For provision of 4G CHs DCC has proposed entering into a finance facility to reduce initial industry charges, spreading these costs over a 15-year period. Since DCC's initial proposal, there have been market-wide increases in the cost of financing, resulting in an increase in costs to our proposed finance facility. We are seeking stakeholder views on our revised proposals in light of this cost increase, particularly from Energy Suppliers who receive these charges.

2. Introduction

2.1. Background

4. The DCC is Britain's digital energy spine, supporting the transformation of the energy system. DCC is licensed by the Government and regulated by the energy regulator Ofgem to connect smart meters in homes and small businesses across Great Britain to a single secure, digital network. DCC supports the roll-out and operation of second-generation Smart Metering Equipment Technical Specifications 2 (SMETS2) smart meters, as well as the migration and operation of existing first-generation (SMETS1) meters onto our network.
5. In August 2023, DCC awarded Toshiba the contract to provide CHs that will support the rollout of 4G connectivity across DCC's network. CHs remain the property of DCC but are paid for through a monthly charge by the responsible Energy Supplier as defined within SEC Section K 'Charging Methodology'.
6. The mechanism that determines the Energy Supplier charge for 4G CHs has been discussed through extensive DCC stakeholder engagement and the options analysed using a Treasury Green Book¹ process to determine the optimal solution. Several options were fully analysed, with a key factor being whether DCC should seek financing for 4G CHs or pass costs directly on to Energy Suppliers, which are then passed onto energy consumers.
7. DCC recommends that it will competitively source a financing facility to fund the payments to 4G CH Manufacturers. The benefits of this option are that it avoids short-term energy consumer bill impacts and better supports charging stability for Energy Suppliers. A full listing of the qualitative benefits of Financing have been shared with Energy Suppliers and are taken from the Outline Business Case (OBC) supported by SEC Panel in February 2025.
8. DCC previously raised SEC Modification MP275 'Section K changes to support 4G Communications Hubs rollout'² which introduced a Unitary Charge for CHs, regardless of their variant (i.e. 2G/3G Single-Band, Dual-Band and 4G), to level the costs in the early years of 4G CH deployment.
9. The 4G CH rollout is underway and Energy Suppliers are presently being charged on a pass-through cost basis for these CHs. DCC has presented to industry its proposed approach to 4G CH financing via its OBC and gained support for the preferred option. Since our initial proposal, there have been market-wide increases in the cost of financing. This has resulted in an increase in the average monthly 4G CH charges if DCC were to enter the proposed financing arrangement. We outline these costs within Section 3 of this document.

2.2. Previous Engagement

10. Following extensive stakeholder engagement, DCC presented its updated OBC to SEC Panel in February 2025. The Panel supported DCC's minded-to position to finance the first 4 years of the 4G roll out. This was assessed as the best balance between the qualitative benefits and higher costs of financing. It also enabled future optionality to decide later if the remaining years of the 4G mass roll out would be financed or not. DCC has engaged through the Communications Transition Group (CTG), Quarterly Finance Forum (QFF) and directly with stakeholders in addition to the SEC Panel. We provide details of this engagement within Appendix A.

¹ The Green Book (2022) - GOV.UK

² <https://smartenergycodecompany.co.uk/modifications/section-k-changes-to-support-4g-communications-hubs-rollout/>

2.3. Areas for consultation

11. There is a need to run a shorter timeline for this consultation as it being undertaken at the request of DCC Customers following delegation of the decision from SEC Panel.
12. The subject has been considered in official forums including the SEC Panel, so we anticipate that potential respondents are already familiar with the detail.
13. This consultation seeks views from Energy Suppliers to confirm financing for 4G CHs remains the preferred option. We welcome feedback from Parties on this topic. This consultation closes at 17:00 on 21 July 2025, and responses should be sent to consultations@smartdcc.co.uk.

3. Financing Proposition

14. DCC has procured a financing facility through a competitive process. The plan is that the proposed arrangement will be formalised with the finance provider, following DCC Board approval in July 2025. It will also take into account responses to this consultation. This facility will cover the initial years of 4G CH roll-out whilst DCC is still repaying legacy financing commitments for the existing Long Range Radio (LRR) and 2/3G CHs.
15. Key points are note are:
- The Financing will reduce the 4G related CH charges while DCC is still repaying the remainder of the financing payments for 2G/3G and LRR CHs.
 - Without the financing the peak average CH charge increase is a 68% increase in RY26/27 charges to 89p, whereas under financing this is reduced to 53p.
 - A full procurement exercise has been undertaken (with 21 lenders) with the support of expert financial advisors to obtain the best outcome.
16. Since submission of our OBC in February 2025, financing costs and forward-looking interest rates have risen, and inflation has reduced slightly. This has meant the economic cost of financing has increased across all the short-listed OBC options and DCC has made the revisions below to explain and mitigate this impact.
17. Figure 1 includes the indicative monthly cost by Regulatory Year (RY) in '4G Financing' vs. a Charging Statement and Indicative Charging Statement (ICS)' scenario, where financing has not been applied.

Charging Group	RY2025/26			RY2026/27			RY2027/28		
	4G Financing	Q4 24/25 CS	Variance	4G Financing	Q2 25/26 ICS	Variance	4G Financing	Q2 25/26 ICS	Variance
Fixed Comms Hub Charge - £/ESMS									
g1	0.546	0.806	(0.261)	0.582	1.010	(0.429)	0.549	0.968	(0.419)
g2	0.094	0.140	(0.045)	0.101	0.175	(0.074)	0.095	0.168	(0.073)
g3	0.409	0.605	(0.196)	0.436	0.758	(0.322)	0.412	0.726	(0.314)
Stock Level Charge - £/CH									
Single Rate	0.80	1.19	(0.39)	0.86	1.49	(0.63)	0.81	1.43	(0.62)
CH Returned Not Redeployed Charge - £/CH									
SBCH	20.48	19.15	1.33	12.99	12.99	0.00	6.13	6.13	0.00
DBCH	44.94	27.04	17.90	55.65	15.75	39.90	57.42	12.58	44.84

Figure 1: Indicative view of how the detailed charges could reduce over the 3 years of this facility

18. Key information:
- Finance period is now three years (reduced from four in the OBC), with options to extend.
 - The repayment period remains 15 years.
 - All costs remain indicative until the finance facility is formally in place.
19. The number of years being financed has been reduced from four years to three, to reduce the overall financing costs. This enables DCC to balance selecting a financing facility with the lowest economic cost whilst still delivering the core qualitative benefits. Optionality still exists to evaluate if the financing facility should be extended beyond the initial 3-year period (if initiated before the three-year facility ends).
20. The Final Business Case (FBC) has utilised DCC's latest mid case assumption of orders during the initial three years. This assumption includes provision for 4G in North Region. If CH volumes increase, the proposed financing arrangement includes an un-committed additional facility. DCC can draw down on this facility if customer order volumes rise above the current forecast.

21. DCC's analysis suggests that financing, with an option to extend beyond the initial term is the optimal approach. This is for the following reasons:
- **DCC charges:** Limits the increase in DCC charges, which is particularly important while DCC are still repaying legacy financing commitments. This in-turn is expected to help reduce pressure on consumer energy bills.
 - **Flexibility:** Offers greater flexibility over future arrangements and enables DCC to account for future market conditions and future CH install volumes. This could reduce overall volatility of DCC charges across the duration of the financing arrangements.
22. **Lowest additional cost:** Is estimated to come at the lowest overall additional economic cost, when compared to other options considered at the OBC stage. DCC also note the following:
- **DCC licence:** Is in-line with DCC's licence based on wider considerations supporting value for money.
 - **Repayment term:** 15 years has been assessed to be optional in the economic modelling.

4. Options & Proposed Approach

23. DCC is seeking views from Energy Suppliers on the following options.
- **Option 1: Financing.** DCC will complete the approval and signature of the competitively sourced facility to finance all 4G CH costs incurred for Years 1-3. This retains future flexibility to consider options from Year 4.
 - **Option 2: Pass through costs to Energy Suppliers.** A non-financed solution where costs are passed on to Energy Consumers through the SEC Licence Charging mechanism as they occur.
24. DCC's proposed approach is **Option 1: Financing**. Despite the market increase in the costs of financing, the qualitative benefits continue to outweigh the higher costs of financing.

Question 1

(Energy Suppliers only) Do you agree with DCC's proposed approach (Option 1) to proceed with the competitively sourced facility to finance all 4G CH costs incurred for years 1-3, which will result in a decrease in DCC CH Charges to Supplier Parties as set out in Figure 1 (above)?

Question 2

(All respondents) Do you have any other comments?

5. Next Steps

25. Following the closure of this consultation, DCC will assess respondents' views which will inform DCC's minded to position. DCC will then publish its response which will contain DCC's consideration of the responses to this consultation on the DCC Website.
26. DCC plans to present the financing contracts for approval by the DCC Board in July 2025 which will be subject to a DESNZ non-objection.
27. Subject to the responses to this consultation, DCC is planning on drawing down the first funds in late July or early August 2025.
28. DCC is targeting to share the forecast updated impact on charging statements at the July QFF to reflect the new facilities (subject to the responses to this consultation).
29. DCC will update its Charging Statement to reflect a reduction in its charges.
30. DCC notes that SEC Section K9 allows DCC to carry forward any under or over recovery in respect of one Regulatory Year to the following Regulatory Year. Therefore, there is no absolute need for the DCC to alter the Charges part way through a Regulatory Year.

6. How to Respond

32. Please provide responses by 17:00 on 21 July 2025 to DCC at consultations@smartdcc.co.uk.
33. 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 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 and the Gas and Electricity Markets Authority (the Authority). Information provided to The Department 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 The Department 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.
34. If you have any questions about the consultation documents, please contact DCC via consultations@smartdcc.co.uk.

7. Appendix A – Engagement with Stakeholders

35. Recent SEC Panel attendance

- SECP137 February 2025 – Request support for OBC (DCC updated minded-to position of Financing)
- SECP136 January 2025 – Progress Update ahead of February inc MP275
- SECP135 December 2024 – Department for Energy Security and Net Zero (DESNZ) led update on OBC progress including MP275
- Since DCC's submission of the OBC to the August SEC panel it has been undertaking detailed analysis and has pushed forward with the charging review under MP275. Key workstreams included:
 - i. The impact of forecasted charges on end consumer bills, with a specific focus on the first 3 years of the 4G roll out when 2G/3G Financing is being repaid – this has been a collaborative review between DCC and DESNZ;
 - ii. A review and updates to the Economic modelling requested by DESNZ since the SEC Panel meeting;
 - iii. Working with SECAS, Ofgem and SEC Parties on the MP275 charging review
 - iv. Provided a teach-in to SEC Parties on the impact of 4G to DCC charges based on feedback from the SEC Panel meeting and the MP275 review.
- SECP31 August 2024 – Original request for support for OBC (Initial DCC minded-to positioning of non-financing)

36. Recent CTG attendance

- Aug 24; CTG Update: 4G CH and EF Funding/Financing - Proposed solution to SEC Panel
- Sept 24 – Dec 24; Monthly updates in 4G CH OBC and Charging review
- Feb 25; 4G CH Funding OBC Proposed solution to SEC Panel

37. Quarterly Finance Forum (QFF)

- Quarterly updates between April 2024 to April 2025

38. Engagement to determine OBC approach

- Development of the 4G CH Financing OBC

As DCC has finalised its proposed solution for the funding of 4G Comms Hubs it has engaged directly with Energy Suppliers and DNO stakeholders as DCC bill payers. These sessions enabled DCC to seek feedback on customer needs, costs and benefits

i. Initial OBC Conclusion (August 2024 SEC Panel)

Ahead of the 31 August SEC Panel, DCC ran stakeholder briefing sessions in May and July 2024. The outputs set out below were then shared at August CTG ahead of the SEC Panel meeting.

Summary of customer feedback:

- Across the stakeholder feedback Value for Money (VfM) was highlighted as the critical decision factor.
- No single option was consistently judged the best outcome by all respondents.
- Stakeholders did not raise any new customer needs that DCC had failed to identify.
- Stakeholders requested the DCC considered a shorter financing term of 10 years, which has been included and was presented to stakeholders in July.
- The Chair of CTG confirmed there were no strong challenges at CTG or QFF to the OBC regarding the funding or financing question. The key customer concern raised is the impact on charges. DCC has noted this and has proposed a Charging Review commencing in September to address the concerns raised.

SEC Panel in August 2024 requested that DCC re-consider its pure focus on VfM and consider wider qualitative benefits of Financing.

ii. Updated OBC Conclusion (February 2025 SEC Panel)

DCC re-considered the wider qualitative impacts and DESNZ provided analysis indicated the potential impact on end-consumers.

DCC ran a further stakeholder briefing in January 2025 which supported DCC's updated view that the qualitative benefits of Financing outweighed the Quantitative costs.

- DCC received a positive reception at QFF (outside of SEC governance) for the proposal to change to its charging for the introduction of 4G. With customers noting the potential to change to a financing solution in the future should there be a material drop in interest rates.
- DESNZ noted from a Departmental perspective that the non-objective role for the OBC is to determine that DCC have engaged with industry on their business needs and the Panel will need to confirm that DCC have captured these needs.

39. Wider DCC engagement on 4G charges and SEC updates

- i. DCC's proposed changes to CH charging methodology for 4G CH (MP275) were tabled at the SEC Change Board on 10th January. DCC was pleased to note that 14 out of 15 Change Board members gave their support to the proposed changes.