DCC Conclusions to 4G Communications Hub Financing Arrangements Consultation

Version: 1.0
Date: 15 August 2025
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Table of Contents

1. Executive Summary

1. The Data Communications Company (DCC) is Britain's digital energy spine, supporting the transformation of the energy system. Communications Hubs (CHs) allow for smart meters installed in homes and businesses to connect to the DCC's secure network, facilitating the transmission of energy consumption data and other smart services.

2. The 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. The 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. The DCC enters into arrangements with a CH Manufacturer to supply CHs to the DCC - this arrangement has a cost. For provision of 4G CHs, the DCC has proposed entering into a finance facility to reduce initial industry charges, spreading these costs over a 15-year period. Since the 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.

4. Following stakeholder engagement and delegation from the Smart Energy Code (SEC) Panel, the DCC consulted[1] for a limited period between 14th July 2025 and 21st July 2025. The consultation sought views from Energy Suppliers, who receive these charges, to confirm financing for 4G CHs remains the preferred option.

5. The DCC received seven responses in total to the consultation. The DCC received six responses from Energy Suppliers, with five in support of the DCC entering into a financing facility for 4G CHs. The other respondent was a Meter Asset Provider (MAP). We provide responses to respondents' views and note further details of next steps within this conclusion document.

[1] Consultation on 4G Communications Hub Financing Arrangements. | Smart DCC

2. Introduction

2.1. Background

6. The 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. The 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.

7. In August 2023, the DCC awarded Toshiba the contract to provide CHs that will support the rollout of 4G connectivity across the DCC's network. CHs remain the property of the DCC but are paid for through a monthly charge by the responsible Energy Supplier as defined within SEC Section K 'Charging Methodology'.

8. 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 Book[1] process to determine the optimal solution. Several options were fully analysed, with a key factor being whether the DCC should seek financing for 4G CHs or pass costs directly on to Energy Suppliers, which are then passed onto energy consumers.

9. The DCC has recommended that it will competitively source a financing facility to fund the payments to the 4G CH Manufacturer. 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.

10. The 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.

11. The 4G CH rollout is underway and Energy Suppliers are presently being charged on a pass-through cost basis for these CHs. The 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 the DCC were to enter the proposed financing arrangement.

[1] The Green Book (2022) - GOV.UK
[2] https://smartenergycodecompany.co.uk/modifications/section-k-changes-to-support-4g-communications-hubs-rollout/

3. Financing Proposition

12. The 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 and considering the responses to the consultation. This facility will cover the initial three years of 4G CH roll-out whilst the DCC is still repaying legacy financing commitments for the existing Long-Range Radio (LRR) and 2/3G CHs.

13. The key points are:

- The Financing will reduce the 4G related CH charges while the 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.

14. Since financing costs estimates were prepared for inclusion within the submission of the 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 this has required the DCC to make revisions.

15. The Final Business Case (FBC) has utilised the 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. The DCC can draw down on this facility if customer order volumes rise above the current forecast.

16. The key points to note in the FBC are:

- 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.

17. The DCC's analysis suggests that financing, with an option to extend beyond the initial term is the optimal approach. Further information can be found in the 4G Communications Hub Financing Arrangements consultation document.

4. Consultation Feedback

18. We asked two questions in the consultation to allow us to understand the position of Parties and fully consider the appropriate next steps. Those questions are repeated below and the responses received are summarised.

19. We received seven responses from six Supplier Parties and one MAP.

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)?

20. This question was for Energy Supplier Parties only as they are the SEC Party Category impacted by the proposal.

21. We asked Energy Suppliers if they agreed with the DCC's proposed approach to proceed with the competitively sourced facility to finance all 4G CH costs. There were six responses to this question.

22. Of those responses five supported the DCC's proposed approach and one response was neutral. That neutral response stated that the decision should be made by the Authority and Secretary of State. They advised that costs must be incurred as economically as possible and provide value for money, regardless of whether the option carried forward. Suppliers must also not be forced to shoulder the burden of these costs without being able to recover them via the Price Cap.

23. Two respondents had concerns with the significant increase in CH Returned Not Redeployed (CHRNR) charge and requested the DCC to provide further explanation. The DCC provided a response to this at its most recent QFF in July 2025. The DCC noted that the CHRNR charge will increase significantly as its purpose is to collect an amount equal to the remaining finance costs if CHs are not redeployed. Under a financing approach these costs will always be higher, but it is envisaged that 4G CHs will be redeployed wherever possible which will significantly mitigate this cost. There is a separate Single Band and Dual Band CHRNR charge and the DCC notes that this was the reason for inclusion of a Single Band charge in the consultation. The 4G CHs are Dual Band and therefore the financing only materially affects the Dual Band CHRNR charge.

24. Within some Energy Suppliers' responses, the DCC notes that there was frustration that the detailed costings of the facility were not able to be shared due to commercial confidentialities. Further, some Suppliers noted that they would like the DCC to re-consider the future use of the Government Green Book methodology which the DCC is required to use for future Financing arrangements.

25. The DCC notes that the proposed financing facility was procured through a competitive procurement process across 21 market participants. It still represents the least cost Financing proposal within the FBC and alternatives have been considered on a like for like basis.

Question 2
Do you have any other comments?

26.

4.1. Transparency and returns process

27. One respondent (a MAP) commented that there has been a lack of transparency between the proposed options across DCC's shared documentation. This impacts the ability for stakeholders to make a fully informed decision. They also felt that the timeline was insufficient.

28. The respondent also commented that Question 1 was biased and that there is no clear evidence of value for money being achieved. They added that the significant financing cost increase was not reflective of the markets they operate in.

29. The MAP added that the DCC and CH Manufacturer should be providing a triage solution which will allow for removed CHs to be returned and re-deployed as the default, unless damaged, resulting in reduced charges, however this was omitted from the Quarterly Finance Forum (QFF)-X slide pack. They sought clarification on why Single-Band CHs are referenced in the consultation when all 4G CHs are Dual-Band.

4.1.1. Transparency and returns process DCC response

30. The DCC has engaged extensively throughout the development of the business case as it has refined its options and considered the key requirements of customers. This has led to the consideration of qualitative and quantitative criteria within the OBC. At all stages, shortlisted options have been evaluated on a consistent basis. The DCC have shared the business case costs within the constraints of commercial confidentiality. Importantly, the DCC has provided detailed analysis to highlight the short- and long-term impact on customer charges for all options.

31. The wording of Question 1 is such that it is asking the reader if they are in support of the DCC's proposed option, of which the reader can then respond accordingly and provide rationale for their response.

32. The DCC has run a full competitive procurement for the final facility with value for money being a key criterion.

33. Although DCC has quoted the CHRNR charges within the consultation document, it is the DCC's intention to take steps to redeploy where possible returned 4G CHs and therefore mitigate costs to customers.

4.2. Green Book process

34. One respondent (Large Supplier) commented that the Green Book process withheld details of the financial arrangements which causes difficulty in identifying changes between the OBC and FBC. They added that this confidentiality did not inspire confidence in the DCC. They proposed that the inclusion of the expected premium to base rates, plus the relevant base rate at the time of writing would allow customers to understand how external events may change the final outcome of a provisional business case. This is in line with another respondent (also a Large Supplier) who commented that SEC Parties are given sufficient time and backing information to assess the commercial impacts to their individual organisations, which holds a reduced level of confidentiality.

4.2.1. Green Book process DCC response

35. This point was discussed at the July 2025 SEC Panel and QFF. The DCC is required to use the Green Book process for all business cases where costs exceed £1m. The DCC provided detailed analysis to indicate the impact on the DCC charges of Financing the 4G CHs under the proposed 3-year facility compared with not Financing. The DCC believed this was the key information required. As the governance process for 'DCC 2.0' is developed, and ahead of the decision to finance the remainder of the 4G roll-out, the DCC will work with Ofgem, the Department of Energy Security and Net Zero (DESNZ) and the SEC Panel to determine if any changes are required to the future governance process.

4.3. Comparison of Single-Band and Dual-Band

36. Another respondent (Large Supplier) sought clarification from the table within the consultation document (Figure 1). This relates to the significantly increasing costs year on year for Dual-Band CHs, and the reduction in costs year on year for Single-Band CHs. They felt that DCC's Dual-Band CH forecast was at odds with the Indicative Charging Statement (ICS) and Single-Band CHs.

4.3.1. Comparison of Single-Band and Dual-Band DCC response

37. As stated in our response to Question 1, DCC notes that the CHRNR charge will increase significantly as its purpose is to collect an amount equal to the remaining finance costs if CHs are not redeployed. Under a financing approach these costs will always be higher, but it is the DCC's intention that 4G CHs will be redeployed wherever possible which will significantly mitigate this cost.

4.4. Governance and engagement

38. One respondent (Large Supplier) challenged the governance route utilised to receive approval for the DCC's proposed position. Another Large Supplier commented on the reduced timeline, especially when considering the impact. They also commented that the DCC's engagement has been unsatisfactory. This has been echoed by another respondent who commented that the QFF was not a suitable forum for decision making as there are parties present who do not fund the DCC's activities.

4.4.1. Governance and engagement DCC response

39. Prior to issuing the consultation, the DCC presented the proposal to the SEC Panel, the Communications Transition Group (CTG) and the QFF over the past c12 months to obtain industry input.

40. At the June 2025 SEC Panel meeting (SECP141/06), members requested that the DCC provided an update via the QFF-X meeting to allow for greater visibility. QFF members requested a consultation to be issued, and the responses be shared with SEC Panel.

41. The rationale for the consultation's reduced timeline was due to the delegation of the decision from SEC Panel. Due to numerous discussions on the subject at official fora, the DCC anticipated that potential respondents were already familiar with the detail.

4.5. Long-term arrangements

42. A respondent (Large Supplier) stated that the proposal raises long-term uncertainty regarding the DCC borrowing costs and rental rates from 2027 onwards. They advised that they have to accept the embedding of uncertain costs for 4G CHs in the longer term. They stated that during the remainder of its licence term, the DCC in its current iteration must take all reasonable steps to deliver financing savings for 2G and 4G CHs. They anticipate that the to-be 'DCC 2.0' licensee will also take all reasonable steps in this area, irrespective of whether it operates under a for-profit or not-for-profit regime.

4.5.1. Long-term arrangements DCC response

43. The DCC, under the Smart Meter Communication Licence, passes through finance costs incurred and makes no margin on such facilities. The proposed facility as set out in the consultation, provides optionality as to whether 4G CHs from year 4 of the roll-out are financed or not and the DCC will provide an update on potential costs from 2027 as part of its regular reporting via the QFF. As part of DCC's drive to ensure the efficiency of its cost base, the DCC in its current form and 'DCC2.0' (under the Successor Licence) will take all available steps to reduce costs where possible.

5. DCC Considerations and Next Steps

44. The DCC is finalising the FBC and obtaining the non-objection from DESNZ whilst it concludes drafting of the facilities with lenders. The proposed facilities were presented to the DCC Board in July 2025 following the conclusion of this consultation.

45. The DCC shared with the SEC Panel the themes and conclusions the DCC had taken from this consultation. The SEC Panel has noted the outcome of the QFF-X and consultation and DCC's decision to progress with the financing facility as proposed.

46. The DCC will update the CTG and the SEC Panel (meeting SECP139/09) when the financing facility is signed and will continue to provide quarterly updates on CH charges, timelines and key assumptions at QFF.