



# Consultation Conclusion 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) Communications Hub (CH) ordering Parties (Parties) and Communication Service Providers (CSP) to consider amendments to the CH forecasting, ordering and delivery rules as defined in the SEC. These changes were in a direct response to the COVID-19 pandemic and the 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).

Issues with the supply of CHs have persisted through 2021 and into 2022 and have impacted on the ability to deliver the ordered volume of CHs in the month requested.

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. The global inventory of silicon chips remains lower than the demand for them.

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 considered 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 2023.

DCC notes that SEC MP140 Intra Stock Transfer is now pending implementation (anticipated to be implemented in the November 2022 SEC release), and that this will allow optimisation of existing, not yet installed CH stock. SEC DP215 Communications Hub Ordering and Forecasting has also been raised to consider longer term changes to standard SEC rules and is in the development stage. DCC still considers that additional steps to secure CH supply into 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 Parties' 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 3 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.

DCC continued to review global supply chain issues in early 2022 and worked with Parties through the Supply Chain Working Group, and with CSPs to evaluate the need to further TCHODR in to 2023. In March 2022 DCC issued a consultation on proposed TCHODR to cover CH requirements for delivery months January 2023 up to and including September 2023. The proposed rules improved the previous offering by increasing and aligning forecast to order variability across CSPs. In April 2022 SEC Panel approved the proposed TCHODR and version 4 was implemented.

DCC considers that CH supply chain uncertainty will continue into late 2023 particularly when some component lead times continue to be greater than 12 months. DCC has continued to engage 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.

In July 2022 DCC issued a consultation seeking party feedback on a further extension to the rules to secure supply. DCC presented two options to industry, neither of which presented any additional cost to industry. The two options were:

1. Option One: do-nothing approach, would not see the extension of the TCHODR post September 2023, rather moving back to standard SEC requirements. This option would not help to mitigate the global supply issues.
2. Option Two: an extension to the previous TCHODR agreed and implemented. TCHODR would continue to override standard SEC obligations. This would provide the supply chain with increased certainty on CH volume required in late 2023 and beyond, it would reduce the risk of under supply or order deferral. Published with this consultation are the proposed TCHODR to implement Option Two.

The consultation was issued 8 July and closed 10<sup>th</sup> August, including a two-day extension and communications to gather additional feedback.

## 2. Customer feedback and consultation responses.

DCC presented two options in the consultation. The first option was to do nothing and revert 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 five responses in total.

### Question One

Do you support / prefer Option One, the do-nothing option? Please provide a rationale for your response.

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

Only one respondent preferred this approach, noting that CH delivery volume remained below the ordered volume despite TCHODR V3 being in place.

DCC considers that the TCHODR have provided additional certainty to the supply chain to reduce the risk of under supply, and notes that 2022 CH volume has been negatively impacted by a significant shortage of silicon chips and covid related lockdown in manufacturing area.

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 / Three

Do you support / prefer Option Two, an extension to the current rules? Please provide a rationale for your response.

Do you support an extension to the TCHODR end date of March 2024? Please provide a rationale for your response.

These questions asked respondents if they preferred the implementation of an unchanged TCHODR with a six-month extension up to delivery months March 2024.

Four respondents agreed with a six-month extension to the TCHODR without any other changes. These respondents noted that this extension would help to reduce the risk seen in the supply chain.

Three of these respondents noted that CH delivery remained below the ordered level despite TCHODR being in place. DCC considers that the TCHODR have help to reduce the risk of under supply by providing additional certainty to the supply chain and will continue to provide additional certainty where they are extended.

Respondents welcomed DCC's commitment to review the rules should global supply chain issues ease, or other scenarios arise where amendments may provide a benefit to Parties.

One respondent noted that there was a misalignment between CH delivery reporting in the monthly Performance Measures Report and the volume of CH being delivered to Parties. DCC has amended the method of reporting this data so that it aligns to Parties' experience of CH delivery.

One respondent noted that there was little risk to DCC or CSPs for under delivery of CHs and asked if amendments to commercial arrangements might be appropriate. DCC considers that unavoidable delays have occurred, as agreed by Panel in recent OPR Exceptional Events in respect of the Global Supply Chain component shortages and therefore does not consider contract changes to be appropriate at this stage.

## 3. Next Steps

DCC considers that an extension to the TCHODR is appropriate to help provide the supply chain with additional certainty beyond SEC standard rules. As such DCC presented details of the TCHODR proposal and customer feedback to SEC Panel at the 16<sup>th</sup> September meeting and asked Panel to consider approval of TCHODR. Panel approved the implementation of the TCHODR to extend the rules up to and including delivery month March 2024.

TCHODR V5.0 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.