Consultation

4G Communications Hub only exchange site visits: Communications Hub Replacement Reimbursement Methodology

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We, Ofgem and the Department for Energy Security and Net Zero, are jointly consulting on the methodology for calculating a single value for a successful 4G Communications Hub only exchange site visit (the "Communications Hub Replacement Reimbursement Methodology"). We would like views from people and organisations with an interest in smart metering. We particularly welcome responses from energy suppliers. We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at ofgem.gov.uk/consultations. If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

Any enquiries related to the text of this publication should be sent to Ofgem at:

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Executive Summary

Background

Smart meters are essential to the energy market, empowering consumers with consumption data, eliminating estimated billing, and enabling flexible energy use through smart tariffs. Their role is particularly critical in supporting Market-wide Half-hourly Settlement and schemes like the Demand Flexibility Service[1]. With the planned 2033 shutdown of 2G and 3G mobile networks, which are currently used for communications for smart meters across Central and South England, these Communications Hubs must be upgraded to 4G to maintain smart meter functionality. Following identifying a funding gap for the replacement of these Communications Hubs only and where meters are not being replaced, the Department for Energy Security and Net Zero (DESNZ) confirmed on 29 February 2024 that the Data Communications Company (DCC) will centrally fund site visits for SMETS2 Communications Hub-only swap-outs. A single Reimbursement Amount (also referred to as a "Centralised Price") per successful visit will be paid to energy suppliers, calculated using a Communications Hub Replacement Reimbursement Methodology jointly developed by DESNZ and Ofgem, ensuring consistent and equitable cost recovery across the sector. This consultation sets out the proposed methodology to calculate this Reimbursement Amount.

The proposed Communications Hub Replacement Reimbursement Methodology and indicative value

Scope

Subject to consultation, the Reimbursement Amount will apply to all energy suppliers irrespective of the delivery model to replace Communications Hubs (i.e., it will include both those conducted in-house or where third parties undertake activity on their behalf). It is directly informed by cost submissions from Large Energy Suppliers, although additional cost data for benchmarking purposes will be collected each year from smaller suppliers and third parties. This Reimbursement Amount will also apply to replacements of Communications Hubs in non-domestic sites where applicable, i.e., where the site includes a 2G/3G Communications Hub attached to a SMETS2 meter.

Cost components

There are four key components in the proposed Reimbursement Amount, which include installer costs, appointment setting costs, forward logistics and reverse logistics costs.

[1] Demand Flexibility Service (DFS) | National Energy System Operator

We are also proposing to apply a fixed rate of 10% to the total sum of these components as a Job Completion Adjustment (JCA), to account for the additional costs incurred when site visits do not result in successful completions. The costs of Communications Hub devices and Meter Premature Replacement Charges (PRCs), as well as costs associated with Communication Service Providers (CSPs) and broader consumer engagement, are excluded from this pricing structure.

Weighting of costs

We propose that cost inputs will be weighted according to how many Communications Hubs Large Energy Suppliers have in their portfolios in the Central & South regions as of Q4 2025. Individual submissions will split costs into third party and in-house cost breakdowns. These components will be further weighted according to the proportion of visits completed by each party type (i.e., third-party or in-house). Further detail on this can be found in Chapter Three.

Reviewing and assessing outliers

We propose that outlier analysis will be conducted at the level of individual cost components, or on total cost if no breakdown is provided. Examples of costs which may be excluded or adjusted include the additional wages required to pay for installers certified to complete new SMETS2 dual fuel installations where it is not appropriate, inclusion of additional (not evidenced) costs or significant increases in costs that have not been adequately explained. Priority will be given to making full use of the submitted cost data wherever possible.

Applying inflation

As part of the proposed methodology, the price will be informed by actual outturn cost data. To account for inflation, an adjustment will be applied using Consumer Prices Index including owner occupiers' housing costs (CPIH) forecast corresponding to the mid-point period of when the price will be in effect.

Setting out the indicative price

Autumn 2024 Request For Information (RFI) inputs were reviewed and applied in line with the proposed methodology, resulting in an indicative price range of £100 - £115. This figure is provisional and does not represent a final price. The final price will be determined following the review of consultation feedback and updated RFI data in early 2026. It is important to highlight that the final price **may fall outside the indicative range**, depending on the most up to date information provided in the RFI and the outcomes of the final calculations post-consultation.

Annual review approach

We propose that, as part of the methodology process, an RFI will be issued to Large Energy Suppliers, and Smaller Energy Suppliers and Meter Operators (MOPs) each year to inform updates to the price. Until such time in the future that the full responsibility transfers solely to Ofgem, each year Ofgem and DESNZ will jointly decide whether a methodology change is required, and if so, initiate a consultation process.

1. Introduction

Background

1.1 In December 2021, Mobile Network Operators (MNOs) operating in the UK confirmed that they do not intend to offer 2G and 3G mobile networks past 2033 at the latest[2]. After the 2G and 3G mobile networks are switched off at the end of 2033, 2G/3G connected smart meters will continue to accurately record energy consumption, however any remaining Communications Hubs operating on these networks will lose connectivity and the associated metering equipment will lose smart functionality. To ensure seamless connectivity, the Communications Hubs will need to be exchanged and replaced with 4G devices in advance of this date.

1.2 In June 2023, the National Audit Office (NAO) recognised the important, positive progress made on the rollout of smart meters since 2018[3]. Several recommendations were made including calls for Ofgem and the Department for Energy Security and Net Zero (DESNZ) to work constructively with energy suppliers on the replacement of Communications Hubs, ahead of the 2G and 3G switch off[4]. The Government and Ofgem have therefore been working closely with industry to ensure a smooth transition of services when the provision of 2G/3G communication services are switched off at the end of 2033.

1.3 On 29 February 2024, DESNZ published its conclusions to address a market gap in the funding arrangements for site visit costs for SMETS2 Communications Hub only swap outs (i.e. replacing a 2G/3G Communications Hub with a 4G Communications Hub) in the Central and South regions of Great Britain[5]. In this document, it was confirmed that the Data Communications Company (DCC) would provide centralised funding for all energy suppliers undertaking site visits to carry out such swap-outs, and that DESNZ and Ofgem would jointly establish

[2] DCMS (2021), A Joint Statement of the Sunsetting of 2G and 3G Networks: https://www.gov.uk/government/news/a-joint-statement-on-the-sunsetting-of-2g-and-3g-networks-and-public-ambition-for-open-ran-rollout-as-part-of-the-telecoms-supply-chain-diversificatio
[3] NAO (2023), Update on the rollout of smart meters: https://www.nao.org.uk/reports/update-on-the-rollout-of-smart-meters/
[4] Refer to page 16 paragraph 28g of the NAO report (link above)
[5] DESNZ (2024), 4G Communications Hub only exchange site visits arrangements: https://smartenergycodecompany.co.uk/smart-metering-implementation-programme-4g-communications-hub-only-exchange-site-visits-arrangements-and-further-proposal-on-the-dcc-charging-mechanism-and-legal-changes/

a methodology for calculating a single Reimbursement Amount provided to energy suppliers per successful site visit.

The scope of the Reimbursement Amount

1.4 We propose that the Reimbursement Amount will be a single cost covering the successful replacement of a 2G/3G Communications Hub attached to an existing SMETS2 meter with a 4G Communications Hub and where no meter replacement or new installation is taking place. Subject to consultation, the proposed calculation will cover costs under the following principles:

- Installer resource: The replacement is conducted by an energy supplier or a Meter Operator (MOP) acting on behalf of that energy supplier. The Reimbursement Amount is paid to the energy supplier by the DCC.
- Region: The replacement is for a Communications Hub in the Central & South Communications Service Provider (CSP) regions of Great Britain in line with DESNZ's February 2024 4G Communications Hub only exchange site visits arrangement consultation response[6], i.e. Communications Hub replacements in the North CSP are out of scope.
- Smart meter and Communications Hub setup: The price will be the same whether the 2G/3G Communications Hub being replaced is Single Band or Dual Band. The same applies to whether the premise is single fuel or dual fuel.
- Customer type: The price will cover replacements of the Communications Hub installed in both domestic and non-domestic sites i.e. where there is a SMETS2 meter and 2G/3G Communications Hub already installed and no meter replacement takes place.
- Job completion adjustment: There will be an adjustment made to the cost of a successful swap out to reflect the incidence and cost impact of swap outs that are unsuccessful on first visit. There will not be separate reimbursements made to energy suppliers to cover site visits where the outcome has been unsuccessful.
- Appointment duration: The installer costs currently assume an appointment duration of 60 minutes – this assumption will be able to be updated as

[6] DESNZ (2024), 4G Communications Hub only exchange site visits arrangements: https://smartenergycodecompany.co.uk/smart-metering-implementation-programme-4g-communications-hub-only-exchange-site-visits-arrangements-and-further-proposal-on-the-dcc-charging-mechanism-and-legal-changes/

further insight on the Communications Hub swap out process success rates and timings becomes available.

- Deployment approach: The Communications Hub replacement site visit work will be led by energy suppliers individually, i.e. there will not be a centralised entity managing and carrying out site visits on behalf of all suppliers. This however does not preclude energy suppliers that enter commercial contracts with MOPs who carry out work for multiple energy suppliers.

1.5 Given the scope outlined above, we recognise that the level at which this Reimbursement Amount is set will be critical to ensuring the successful transition from 2G/3G to 4G networks. The Reimbursement Amount, and the mechanism for its adjustment during the replacement window from 2026 to 2033 (via annual reviews), must strike a balance between incentivising the proactive replacement of 2G/3G Communications Hubs with 4G Communications Hubs and ensuring value for money for consumers. This involves adequately funding the legitimate costs incurred by energy suppliers whilst safeguarding against excessive funding of exchange only site visits (recognising that these costs will ultimately be borne by consumers).

The cost recovery mechanism and price cap implications

1.6 On 8 August 2025, DESNZ published its conclusions[7] to the consultation on the cost recovery mechanism and legal changes associated with 4G Communications Hub only exchange site visits. As part of this, DESNZ confirmed that costs associated with this activity will be recovered via DCC Fixed Charges. In addition, Appendix 3 of Ofgem's May 2025 decision on energy price cap operating cost and debt allowance decision[8], concluded that costs associated with 4G Communications Hub only exchange site visits would therefore be automatically captured, as the DCC costs already flow through into the price cap as part of the Smart Metering Net Cost Change (SMNCC) pass-through costs.

[7] DESNZ (2025), Conclusions on 4G Communications Hub only exchange cost recovery arrangements and legal changes: https://smartenergycodecompany.co.uk/smart-metering-implementation-programme-desnz-conclusions-on-4g-communications-hub-only-exchange-site-visit-dcc-charging-mechanism-and-legal-changes/

[8] Ofgem (2025), Energy price cap operating cost and debt allowance decision, Appendix 3, paragraph 4.38: https://www.ofgem.gov.uk/consultation/energy-price-cap-operating-cost-and-debt-allowances-consultation

What are we consulting on

1.7 In the context of the centralised arrangements to fund the 4G Communications Hub only exchange site visits, this consultation seeks feedback on the proposed methodology to calculate a Reimbursement Amount to cover these visits (the "Communications Hub Replacement Reimbursement Methodology"). Specifically, we are seeking views on:

- The calculation approach itself.
- The cost components proposed for inclusion; and
- The annual review process intended to adjust the Reimbursement Amount throughout the replacement window (2026–2033).

1.8 Additionally, we are seeking views on our proposal to set an indicative price using this methodology. Please note that we are not consulting on the indicative price itself, but rather on the approach used to derive it, based on existing data provided by energy suppliers in 2024 and through subsequent engagement of suppliers with DESNZ. We have set out individual chapters to cover these areas separately.

Chapter 2: The cost components

1.9 In Chapter 2, we outline what cost elements are proposed to be included in the Reimbursement Amount calculation (installer costs, appointment setting, forward logistics, reverse logistics, and the job completion adjustment rate), and those which are excluded from the Reimbursement Amount calculation (Communications Hubs Premature Replacement Charges (PRCs), Meter PRCs, Communication Service Provider (CSP) related costs, and wider consumer engagement costs). Specifically, we seek views from respondents on the components that have been both included and excluded from the methodology.

Questions

Q1. Do you agree with the cost components that have been included in the Reimbursement Amount calculation? Please provide rationale and evidence to support your answer.

Q2. Do you agree with the cost components that have been excluded from the Reimbursement Amount calculation? Please provide rationale and evidence to support your answer.

Q3. Are there any additional cost components that should be included in the proposed Reimbursement Amount calculation? If so, please list them and explain why they should be included.

Q4. Do you have any other comments on the proposed cost components?

Please provide any supporting evidence or data to substantiate your responses, where applicable.

Chapter 3: The proposed calculation methodology

1.10 In Chapter 3, we set out the proposed methodology for calculating the Reimbursement Amount, including a summary of the end-to-end framework used to develop the methodology. We also present the high-level formula underpinning the methodology (with further detail in Appendix 1 explaining how the formula components are calculated). We are therefore seeking views from respondents on the proposed calculation methodology.

Questions

Q5. Do you agree with the proposed calculation methodology? Please provide rationale and evidence to support your answer.

Q6. Do you believe an alternative methodology could yield a more accurate calculation? Please provide rationale and evidence to support your answer.

Q7. Do you have any other comments in relation to the proposed methodology?

Please provide any supporting evidence or data to substantiate your responses, where applicable.

Chapter 4: Setting an indicative price

1.11 In Chapter 4, we begin by setting the context on data availability, recognising the challenges associated with setting a Reimbursement Amount ahead of significant volumes of Communication Hub swap outs taking place. We then present a proposed indicative price, as well as outlining the steps required to gather the initial set of data via this consultation process. Details relating to the RFI template for energy suppliers to complete is provided in Appendix 3.

Chapter 5: The annual review process

1.12 Chapter 5 outlines the proposed annual review process to ensure continued alignment with market conditions. It proposes which cost components will be subject to either manual review or adjusted automatically by inflation. The chapter also defines the criteria for when a change to the Reimbursement

Amount methodology would be triggered and the associated consultation process. We welcome views from respondents on this proposed process.

Questions

Q8. Do you agree with the proposed annual review process? Please provide rationale and evidence to support your answer.

Q9. Do you consider that an alternative review process might better reflect changes in market conditions and support a more accurate and realistic Reimbursement Amount? Please provide rationale and evidence to support your answer.

Q10. Do you have any other comments on the proposed annual review process?

Please provide any supporting evidence or data to substantiate your responses, where applicable.

Context and related publications

1.13 DESNZ has been engaging industry on the issue of 4G Communications Hub swap-outs since summer 2022, where initial discussions took place with energy suppliers, Meter Asset Providers (MAPs) and the DCC. The results from this initial engagement found that there were significant barriers in replicating existing MAP arrangements to cover the funding of Communications Hub exchange activity only, and that centralised funding was preferred to avoid any additional complexity for market participants. The publications listed below relate to this engagement or are intended to provide context to support respondents in forming their views when responding to this consultation.

1.14 In July 2023[9], DESNZ consulted on a range of options regarding industry funding arrangements for 4G Communications Hub only exchange activity. The conclusions document, published by DESNZ in February 2024[10], confirmed broad industry support for DCC to provide centralised arrangements for all energy suppliers. Respondents considered this approach to best align with the assessment criteria and principles identified as the key desirable features of a

[9] DESNZ (2023), Communications Hub Only Exchange Activity: https://smartenergycodecompany.co.uk/documents/sec/communications-hub-only-exchange-activity-consultation-_-final/

[10] DESNZ (2024), 4G Communications Hub only exchange site visits arrangements: https://smartenergycodecompany.co.uk/smart-metering-implementation-programme-4g-communications-hub-only-exchange-site-visits-arrangements-and-further-proposal-on-the-dcc-charging-mechanism-and-legal-changes/

Communications Hub exchange framework, particularly in relation to simplicity and deliverability.

1.15 The February 2024 conclusions document also confirmed broad industry support for the proposed joint Ofgem and DESNZ benchmarking framework to define the Reimbursement Amount. The document concluded that:

- Ofgem and DESNZ will jointly set the initial Reimbursement Amount and undertake the initial annual review(s).
- Responsibility for ongoing annual reviews will transfer solely to Ofgem, though the timing of this transition remains to be confirmed.
- The initial methodology for calculating the Reimbursement Amount, including the approach to annual reviews, will be subject to a joint DESNZ and Ofgem consultation, and is set out in this document.
- A decision on which cost components will be included in the Reimbursement Amount calculation was deferred and will also be addressed through this consultation.

1.16 On 8 August 2025, DESNZ published its conclusions[11] to the consultation on the cost recovery mechanism and legal changes associated with 4G Communications Hub only exchange site visits. Please see line number 1.6 for further information.

1.17 Also, on 8 August 2025, DESNZ published a consultation[12] on proposals for Licence Condition amendments that include strengthening the smart metering Operational Licence Condition to deliver service improvements, a 2030 obligation on energy suppliers to complete the domestic rollout, and a requirement on energy suppliers to submit annual deployment plans. As part of this consultation, DESNZ is proposing that energy suppliers pre-emptively replace smart metering assets, including Communications Hubs only (where relevant) under their Operational Licence Conditions to ensure the continued delivery of smart services when the DCC's relevant Wide Area Network service contracts come to an end and are replaced by different services.

[11] DESNZ (2025), Conclusions on 4G Communications Hub only exchange cost recovery arrangements and legal changes: https://smartenergycodecompany.co.uk/smart-metering-implementation-programme-desnz-conclusions-on-4g-communications-hub-only-exchange-site-visit-dcc-charging-mechanism-and-legal-changes/

[12] DESNZ (2025), Smart metering policy framework post 2025: Smart metering policy framework post 2025 - GOV.UK

Consultation stages

1.18 This consultation will be open until 4 November 2025. Responses will be reviewed, and we expect to make our joint consultation decision in February 2026.

Stage 1	Stage 2	Stage 3	Stage 4
Consultation opens	Consultation closes (awaiting decision)	Responses reviewed	Consultation decision/policy statement
09/09/2025	Deadline for responses 04/11/2025	Expected in Q4 2025	Expected in February 2026

How to respond

1.19 We want to hear from anyone interested in this consultation. Please send your response to Arno Vanden Eynde at DCCregulation@ofgem.gov.uk. As this is a joint consultation with DESNZ, all responses received (non-confidential or confidential) will be shared with the Department.

1.20 We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

1.21 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, your data and confidentiality

1.22 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

1.23 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you **do** wish to be kept confidential and those that you **do not** wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

1.24 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 5.

1.25 As we will be sharing responses, and therefore data, with DESNZ, the following statement on confidentiality and data protection also applies: Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004). DESNZ will process your personal data in accordance with all applicable data protection laws. Please refer to DESNZ's privacy policy.

1.26 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

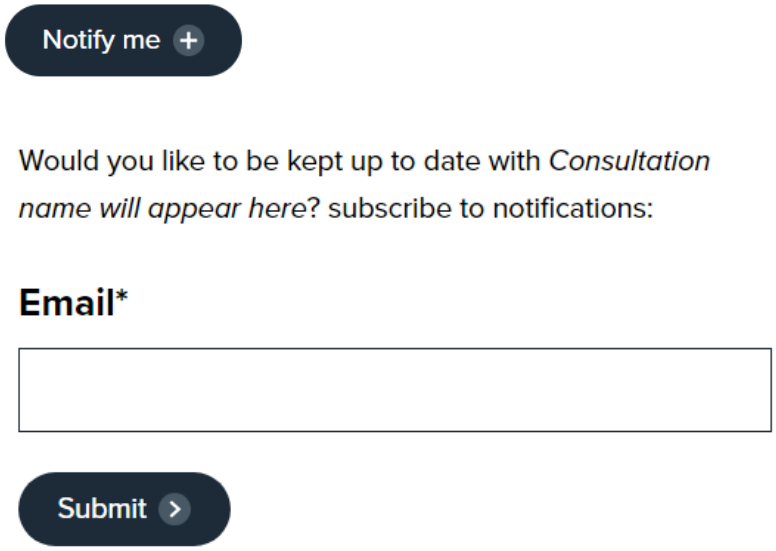
1.27 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Choose the notify me button and enter your email address into the pop-up window and submit. ofgem.gov.uk/consultations



Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

2. The cost components

In this section, we set out the proposed four key cost components of the Reimbursement Amount for 4G Communications Hub only exchange site visits. This rationale details the reasoning behind the inclusion of these components, and the reasoning for excluding other cost components which were initially considered.

Questions

Q1. Do you agree with the cost components that have been included in the Reimbursement Amount calculation? Please provide rationale and evidence to support your answer.

Q2. Do you agree with the cost components that have been excluded from the Reimbursement Amount calculation? Please provide rationale and evidence to support your answer.

Q3. Are there any additional cost components that should be included in the proposed Reimbursement Amount calculation? If so, please list them and explain why they should be included.

Q4. Do you have any other comments on the proposed cost components?

Please provide any supporting evidence or data to substantiate your responses, where applicable.

Proposed cost components of the Reimbursement Amount

2.1 There are four key cost components that make up the proposed Reimbursement Amount:

I. Installer costs

II. Appointment setting costs

III. Forward logistics costs

IV. Reverse logistics costs

A Job Completion Adjustment will be applied on top of these cost components to reflect the incidence and cost impact of swap outs that are unsuccessful on first visit.

Explanation of the proposed components

2.2 **Installer costs -** Costs directly related to sending a suitable qualified installer to a customer's site to replace a 2G/3G Communications Hub with a 4G Communications Hub. "Suitably qualified" refers to an installer who is competent

to complete a Communications Hub replacement process, but whose certification requirements are not the same as those for installers performing new SMETS2 dual fuel installations. The cost should reflect this distinction in qualification level. This cost component includes the installer's wages, tools, equipment and transportation costs such as fuel and associated vehicle costs. This also includes an allowance for field management and technical support provided to the installer during the replacement process. Based on cost data previously shared with DESNZ through previous RFIs, this cost component is anticipated to be the largest component of the four. There are certain elements of installer costs that are proposed for exclusion, specifically: costs will not include the additional wages required to pay for installers certified to complete new SMETS2 dual fuel installations. Additionally, standard operational expenses such as those related to installer recruitment, training or apprenticeship programmes are also excluded, as these are considered to be broader business costs not directly attributed to individual site visits.

2.3 **Appointment setting -** Costs incurred in scheduling and confirming Communications Hub only replacement appointments with customers. This includes identifying potential customers, booking appointments through various channels (e.g. WhatsApp, Short Message Service (SMS) and letters) and confirming the details with the consumer ahead of the appointment and on the day of the visit. The approach is priced to encourage scalable, efficient customer communications rather than a reliance on telephony or in-person contact methods, although we recognise that suppliers will still need to use telephony on occasion, for example to appropriately serve certain vulnerable customers. Costs associated with the ongoing maintenance of any appointment setting platform or marketing expenses are excluded. As part of marketing expenses, we exclude costs associated with promotional efforts related to the 2G/3G communications network switch off.

2.4 **Forward logistics -** Costs associated with the movement, storage, and delivery of 4G Communications Hubs to the installer. This covers pre-defined pallet storage, internal warehouse handling, movement within the warehouse, transportation to the installer (e.g. van rentals or delivery services) and standard quality assurance procedures as are currently used for 2G/3G Communications Hubs. Excluded from these costs are any enhanced QA processes specific to 4G Communications Hubs, and the monthly rental fees applicable for pre-installation storage for the 4G Communications Hubs.

2.5 **Reverse logistics -** Costs associated with the return and storage of the removed 2G/3G Communications Hubs collected from installers. This includes transportation and storage costs for returning the communications hubs, storage within the warehouse, and transportation for recycling with process details subject to the development of a new large volume returns model. Excluded from these costs are any fees associated with replacing defective 4G Communications Hubs or the cost of dedicated personnel to manage the returns process. It is anticipated that process improvements will be implemented ahead of April 2026 to allow for a scaled returns process to be carried out. There is an industry SEC Mod MP252 (planned for implementation in the November 2025 SEC Release) which will facilitate the decommissioning of up to 1,000 Communications Hubs in a single transaction. Progress on this SEC Mod is being reported via the Communications Transition Group (CTG).

2.6 **Job completion adjustment –** This refers to the adjustment made to the cost of a Communications Hub swap out to reflect the incidence rate, and the cost impact of swap outs that are unsuccessful upon first visit. This component will be managed separately to the other cost components, as it acts as a contingency allowance that is applied on top of each successful first visit. Further detail on what has been accounted for within the fixed rate proposed for this cost adjustment is set out in Chapter 3.

Other cost components considered (but not included)

2.7 **Communications Hubs Premature Replacement Charges (PRCs)** (also known as Communications Hub Returned and Not Redeployed charge) - These costs are fixed costs per Communications Hub applicable by the DCC, resulting from return and decommission of an operating Communications Hub within a pre-defined time period. The underlying costs are split by Single Band Communications Hubs (SBCH) and Dual Band Communications Hubs (DBCH) and are linked to centralised financing costs incurred by the DCC of the 2G/3G Communications Hub. On this basis, these costs are based on a fixed overall financing window that is separate from the operating period of the individual Communications Hub. These costs decrease annually until reaching zero in Financial Year 2029/30 and are expected to reach negligible levels by the period when Communications Hub replacements are expected to take place at scale.

Because of changes resulting from MP275[13], there will be no charges for returns of 2G/3G Communication Hubs that have been replaced by 4G Communication Hubs.

2.8 **Meter PRCs** – These costs are fixed costs per meter applied by Meter Asset Providers (MAPs) when a meter is replaced before the end of its commercial life. These costs are not deemed applicable for inclusion within the Reimbursement Amount component, as this is only payable where a successful Communication Hub only exchange has taken place, and no meter has been replaced as a result. Where a site visit is originally planned as a Communications Hub replacement only but results in the meter(s) being replaced, energy suppliers will be able to recover the associated site visit costs from Meter Asset Providers (MAPs) financing via existing commercial arrangements with the relevant MAP. In this instance the Reimbursement Amount will not apply. The costs of any meter replacements and associated installation activities are out of scope for this consultation.

2.9 **Communications Service Provider (CSP) related costs** – Once 2G/3G Communications Hubs are returned by energy suppliers, additional activity by CSPs will be required to manage their processing and recycling. From Summer 2025, the provision of 4G Communications Hubs to energy suppliers will become part of the Business as Usual (BAU) supply chain processes. These associated costs have not been deemed directly attributable to costs incurred by an energy supplier (or third party) conducting the site visit.

2.10 **Wider consumer engagement costs** – Energy suppliers or wider industry may wish to undertake additional marketing or engagement activity to inform customers of the requirement to replace Communications Hubs, and maximise engagement and response to the appointments. These costs are not considered to be directly relevant to the successful completion of a site visit, and a separate allowance is included within the price components for appointment setting reminders and engagement to be carried out on an individual basis with customers.

[13] MP275: Section K changes to support 4GCH rollout.

3. The proposed calculation methodology

In this section, we outline the framework for the proposed methodology, combining a range of decisions covering: the data inputs used to inform the price, how and from whom those inputs are collected, how they are assessed to calculate the initial Reimbursement Amount and how that price is subsequently adjusted through an annual review process. We also detail the decision points that have been considered in developing the approach, and we provide a high-level overview of the proposed methodology for calculating the Reimbursement Amount, which is the subject of this consultation.

Questions

Q5. Do you agree with the proposed calculation methodology? Please provide rationale and evidence to support your answer.

Q6. Do you believe an alternative methodology could yield a more accurate calculation? Please provide rationale and evidence to support your answer.

Q7. Do you have any other comments in relation to the proposed methodology?

Please provide any supporting evidence or data to substantiate your responses, where applicable.

The framework for setting the Reimbursement Amount

3.1 The Reimbursement Amount will be a single cost covering the site visit for a successful replacement of a 2G/3G Communications Hub attached to a SMETS2 with a 4G Communications Hub in either domestic or smaller non-domestic sites, in the Central and South geographical regions of Great Britain only (also referred to as a "CH Replacement Reimbursement Event"). In developing the proposed methodology for the Reimbursement Amount, we have adopted the following principles:

- The Reimbursement Amount needs to be set at a suitable level to ensure value for money for energy bill payers. If the price is set too high it could lead to unnecessary additional costs to the overall smart metering programme by generating excess operating profit for energy suppliers, beyond their actual incurred costs. If the price is set too low, energy suppliers may not be able to recoup a proportion of their efficient operational costs.
- The Reimbursement Amount should be set using outturn cost data provided from large energy suppliers. To reduce the overall reporting burden while

maintaining robust cost coverage, smaller energy suppliers (including those operating solely in the non-domestic sector) and Meter Operators (MOPs) will be allowed to submit data on a voluntary basis. This approach aims to ensure that the Reimbursement Amount reflects a representative share of the swap outs completed. Cost data will be collected via an RFI, details of which is included in Appendix 3 of this consultation.

- The Methodology should make full use of the cost data submitted by energy suppliers and MOPs. However, it should also include provisions to exclude or adjust data that meet the outlier conditions (as detailed in the Methodology) - such as being significantly higher or lower than other comparable cost data, or lacking sufficiently justified evidence. This approach aims to support the accuracy and reliability of the Reimbursement Amount.
- The Reimbursement Amount should not prescribe a specific operational delivery model for how the site visits for Communications Hub swap outs are conducted. This means the Reimbursement Amount should reflect a blended cost approach capturing the range of delivery models used across industry including the use of both internal field force and third-party providers.
- The Methodology must be transparent to ensure that both industry and consumers understand how the Reimbursement Amount is determined. This transparency is supported through the introduction of a Reimbursement Amount formula.
- The Methodology should allow flexibility to allow the Reimbursement Amount to change over time, to reflect that further insight on the costs incurred will emerge as the swap out activity scales up. This flexibility is enabled through the introduction of an Annual Review mechanism for the Reimbursement Amount.

The minded to position for setting the Reimbursement Amount

3.2 Based on the principles set out above, the proposed approach for determining the Reimbursement Amount is a weighted average methodology. Weightings would be based on the total number of 2G/3G Communications Hubs (attached to a SMETS2 meter) each large energy supplier has in the Central and South region as of Q4 2025.

3.3 While the proposed methodology prioritises the use of cost data from large suppliers, it also allows for the inclusion of data from smaller suppliers and Meter Operators (MOPs) to inform benchmarking and enhance representation. The methodology would make allowances for cost input data to be reviewed and either adjusted or excluded if it is not compliant with the data requirements. Where data points are found to be outliers, they may be adjusted or excluded with corresponding adjustments being made to the weightings applied to those data points. The proposed methodology will also utilise other sources of data, including the Annual Supplier Returns.

3.4 The proposed Reimbursement Amount would consider the cost of swap outs using both internal field force and third-party providers. Large energy suppliers will be asked to confirm the historical proportion of work split across these delivery models, which will allow for a combined cost figure to be calculated.

3.5 The combined cost figure will be derived from the sum of individual cost components, installer, appointment setting, forward logistics and reverse logistics costs. If a cost breakdown is not provided, then the total cost of a swap out provided will be used in the calculation.

3.6 The cost data would be based on outturn costs incurred between1 April 2025 and 31 August 2025. Thes costs will be uprated using the historic and forecast CPIH index to reflect the price level applicable for the first reimbursement period, which runs from 1 April 2026 to 31 March 2027.

3.7 An additional adjustment, the Job Completion Adjustment, will account for the proportion of site visits that do not result in a successful Communications Hub swap out on the first attempt. For the first year, this adjustment is proposed at 10% based on a review of the relevant categories where SMETS2 installation activities have not completed successfully, and it excludes those that would not be applicable for swap outs (i.e., SMETS1 activities and SMETS2 installation activities in CSP North). The RFI will collect data on frequency and causes for unsuccessful visits during the reporting period to inform future updates to this adjustment.

3.8 Overall, the proposed minded to position aims to strike a balance between cost reflectivity, transparency and efficiency. Weighting the submissions by the proportion of swap outs each large energy supplier is expected to complete should ensure the Reimbursement Amount reflects actual delivery patterns, while the treatment of outliers (adjusting or excluding) should support cost

efficiency. The proposed methodology offers energy suppliers enough clarity to understand how the data they submit will be used in setting the Reimbursement Amount, and that this remains responsive to evolving operational insights.

Decision points for the methodology

Gathering cost data

3.9 The proposed Methodology plans to utilise data from a range of sources. While some of this data will come from existing and well-established data collection processes, additional cost data will be required due to the relatively new nature of the swap outs. This new data will inform both the initial setting of the Reimbursement Amount, and it will continue to be collected on an ongoing basis to support the annual reviews in subsequent years.

3.10 The initial RFI, issued alongside this consultation, covers outturn costs incurred during the period between 1 April 2025 and 31 August 2025. Future RFIs issued as part of the Annual Review will be issued each July and will cover the 12-month period from June of the preceding year to May of the year the RFI is issued.

3.11 The estimated costs of swap outs will be collected from large energy suppliers through an RFI issued annually. The RFI will request detailed cost data for annual Communications Hub replacements delivered by energy suppliers' internal field force and third-party providers, with costs broken down by cost components where available. Energy suppliers will also be asked to provide the proportion of replacements carried out by internal field force versus third-party providers, the average time required to complete each swap out, and the number and reasons for any unsuccessful first-time swap outs. Details of the RFI is provided in Appendix 3 – Data Requirements for setting the Reimbursement Amount for 2026-2027.

3.12 While the RFI is primarily targeted at large energy suppliers, whose data is expected to represent the majority of swap out activity, other industry stakeholders, including smaller energy suppliers (including non-domestic only) and MOPs would be able to submit data using a simplified version of the RFI template detailed in Appendix 3. Data submitted by other industry stakeholders will contribute to benchmarking and cost outlier assessment.

3.13 An alternative option that has been considered would consist of requesting cost data from all energy suppliers. While this would broaden the data set and ensure the Reimbursement Amount reflects costs across all industry, it would

also place a disproportionate administrative burden on smaller energy suppliers. Additionally, the increased volume and variability of data inputs is likely to introduce further complexity into the review process, potentially affecting the efficiency and pace of setting the Reimbursement Amount. The associated proposed weightings for cost inputs from smaller energy suppliers may be minimal, particularly where they have a small number of installed 2G/3G Communications Hubs, therefore their impact on the overall Reimbursement Amount also is expected to be negligible. The proposed approach attempts to strike the right balance between minimising the cost reporting burden for all energy suppliers while ensuring the Reimbursement Amount is reflective of the overall costs of the replacement activity.

3.14 The RFI will request energy suppliers to provide outturn cost data. Outturn cost data refers to the actual costs incurred within the previous, specified period for the requested activities. This will allow for comparison with data collected through the Annual Supplier Returns, which will be used for benchmarking purposes. This approach aligns with the methodology used in setting the energy price cap, where historic cost data informs future pricing. As a result, it enables inflation to be applied consistently across all energy supplier costs.

3.15 An alternative approach considered involves requesting cost forecasts for the year in which the Reimbursement Amount would apply. This method has the advantage of reflecting energy suppliers' expectations of future cost changes, including potential cost reduction as operational efficiencies improve. However, this approach presents challenges in distinguishing between cost changes driven by genuine efficiency gains and those resulting from inflation. As a consequence, this approach does not allow for inflation to be applied consistently which in turn limits the ability to benchmark costs effectively against other data sources.

Assessing cost data for outliers

3.16 Data on the cost to complete swap outs has been gathered informally via DESNZ since early 2024. Through this data gathering, it has become apparent that there is significant variation in the cost inputs and quality of data provided by energy suppliers for these site visits. This variation can include significant fluctuations over time, can lack detailed cost breakdown information, or can include cost data that does not align with the prescribed assumptions. Therefore, a potential adjustment of cost components has been incorporated as

a necessary step within the Methodology to ensure that the Reimbursement Amount continues to represent value for money for the consumer.

3.17 The cost data provided by energy suppliers will be assessed to determine whether any of the costs are outliers. An outlier could refer to costs which may be significantly higher or lower than cost benchmarks from energy suppliers and third-party providers, lack sufficient breakdown or justification, or have significantly changed from the previous year's submission. As part of considering outliers, we may engage with energy suppliers about their data submissions. We propose that any outliers would be adjusted using data from other cost benchmarks or, if necessary, excluded from the data used to calculate the Reimbursement Amount. This is consistent with the approach Ofgem takes to setting the energy price cap.

3.18 The treatment of outliers ensures that the Reimbursement Amount is based on efficient costs incurred by energy suppliers for swap outs. It also acts as a deterrent against inflated costs submissions, as cost data can be excluded where appropriate. This complements energy suppliers' existing licence condition requirements to provide accurate data, and it offers an additional mitigation.

3.19 The adjustment of outliers also provides flexibility to account for anticipated cost reductions that may not be fully reflected in energy suppliers' outturn cost data, but which represent confirmed cost efficiency opportunities for the upcoming Reimbursement Amount period. This could include, for example, an adjustment to reverse logistics costs to reflect the anticipated availability of a 'large volume returns' process for 2G/3G Communications Hubs in the longer-term. It is important to note that the current proposed Methodology does not yet assume cost efficiencies on this basis.

3.20 We have identified an initial set of criteria to determine if cost data provided by energy suppliers should be treated as an outlier. We propose that the criteria would apply in the initial setting of the Reimbursement Amount and in updates made as part of the annual review process. The proposed criteria to identify outliers are set out below:

- The cost of a swap out using the energy supplier's internal field force is greater than the cost for a SMETS2 single fuel electricity installation also carried out by that energy supplier's internal field force. The comparator source of data for this outlier is the Annual Supplier Returns (ASR) submitted to DESNZ each year.

- The cost of a swap out using a third-party provider is significantly higher or lower than the range of costs collected from Meter Operators (MOPs), provided that sufficient data is available for this comparison.
- The cost of a swap out using the energy supplier's internal field force or third-party providers is significantly higher or lower than the range of costs collected from smaller energy suppliers, provided that sufficient data is available for this comparison.
- The installer costs are based on the wages for individuals with a higher level of skillset or certification/qualification than is required for 4G Communications Hub only exchange site visits.
- The energy supplier has not provided a cost breakdown per swap out, and has not sufficiently demonstrated that the costs submitted do not include any wider expenses not directly related to completing a successful swap out.
- The cost of the swap out includes one or more items that should be excluded from the cost submission, as defined in the RFI template.
- The cost of any component has increased by significantly more than the rate of inflation since the energy supplier's previous year's submission, without sufficient justification to support the information provided.
- The reverse logistics costs do not account for the cost efficiencies enabled through the anticipated "large volume returns process" for 2G/3G Communications Hubs, once it has become available.

3.21 We propose applying a scalar to outliers, either to exclude them from the data used to set the Reimbursement Amount or to adjust them to a level that is consistent with other cost benchmarks. If a large energy supplier's total cost data is excluded from the data used to set the Reimbursement Amount, then the number of 2G/3G Communications Hubs associated with that large energy supplier would also be excluded from the calculation. This ensures the weighted average is calculated based only on those energy suppliers whose cost data has not been excluded. If only a component of an energy supplier's cost inputs is excluded, then only that component is removed from the weighted average cost calculation. If a component of an energy supplier's costs is adjusted, rather than excluded, then the number of Communications Hubs to which the cost applies will also be proportionally scaled down (using the same adjustment

factor) to ensure the component's contribution to the overall weighted average is appropriately discounted.

3.22 Appendix 2 provides an example of how the adjustment and exclusion of outliers would work in practice.

Applying the weighted average to the cost data

3.23 Following the outlier assessment, the cost data would be combined using a weighted average approach. This proposed method ensures that the Reimbursement Amount reflects the overall cost of Communications Hubs swap outs. Energy suppliers with a higher volume of Communications Hub replacements to complete would carry greater weight in the calculation, while those with a smaller number of replacements to complete would have a proportionally smaller influence, preventing a disproportionate impact on the Reimbursement Amount.

3.24 We propose that costs would be weighted by the number of 2G/3G Communications Hubs attached to a SMETS2 meter each energy supplier has in the Central and South regions as of Q4 2025. This weighting would reflect their current portfolio, rather than the original number of Communications Hubs installed as part of SMETS2 installations. This data would be sourced from the Data Communications Company (DCC). The weights would remain fixed for the duration the Reimbursement Amount is in place, unless there are material changes in the number of replacements each large energy supplier is expected to complete. An exceptional change would be triggered by the following criteria:

I. A market exit by an energy supplier

II. An acquisition or merger involving energy suppliers

3.25 These are the primary proposed basis for revisiting the weights used in the calculation of the weighted average. We do not propose to account for customer churn. This is because we do not expect customer churn to have a material impact on the weighted average cost across large energy suppliers.

3.26 An alternative approach would be to adjust the weighting over time, either to reflect forecast replacement activity for the year ahead or the remaining number of 2G/3G Communications Hubs each energy supplier is expected to replace. While this may provide a better reflection of the total replacement cost for the upcoming period, it would potentially introduce a higher risk of gaming, particularly if weights are based on yearly forecasts. In such cases, energy

suppliers could potentially inflate their forecasts to have a greater influence over the Reimbursement Amount. Using forecast replacement activity may also introduce greater year-to-year variability in the Reimbursement Amount potentially disrupting energy supplier deployment plans.

Adjusting the cost data for inflation and job completion considerations

3.27 We propose that the weighted average cost of swap outs would be adjusted to account for inflation and for instances where the initial visit does not result in a successful Communications Hub replacement.

3.28 The weighted average cost per successful swap out will be adjusted for inflation based on historic and forecast Consumer Prices Index including owner occupiers' housing costs (CPIH) data published by the Office for Budget Responsibility (OBR). The adjustment will reflect inflation from the midpoint of the period for which outturn costs have been provided (1 April 2025 to 31 August 2025 for the first period) to the midpoint of the period when the Reimbursement Amount will apply (1 April 2026 to 31 March 2027 for the first period). This equates to an inflation adjustment over a 15.5-month period from mid-June 2025 to the end of September 2026.

3.29 The CPIH index is widely used by Ofgem in price controls and for indexing the energy price cap. An alternative approach would be to use the GDP deflator, but this is less commonly used for the purpose of adjusting energy costs. Another option would be to develop a tailored inflation adjustment specific to the costs of swap outs. However, this would be difficult to estimate based on the available data and could introduce greater year-to-year variability in the Reimbursement Amount.

3.30 In addition to inflation, we propose that the weighted average cost will also be multiplied by a Job Competition Adjustment, to account for instances where Communication Hubs replacements are not successfully completed on the first visit. The Job Completion Adjustment will be calculated based on the rate and cost impact of unsuccessful visits, recognising that early-stage failures may have lower cost implications.

3.31 The initial value of the Job Completion Adjustment has been informed by a bottom-up assessment of historic job completion rates for first-time SMETS2 installations, taking into account whether similar challenges are expected to arise for swap outs.

3.32 We have reviewed data on SMETS2 installation rates and have identified several areas that are also likely to apply to swap out activity. These areas include:

- Supplier logistical challenges, such as limited or no access to parking near the property.
- Customer related access issues, such as refusing to grant access to the property or not being present at the scheduled appointment time.
- Meter accessibility problems, for example in flats where keys are needed to access meter boxes in communal areas or where home improvements have restricted access to the meter.

3.33 In addition, consideration has been given to potential unsuccessful visits due to technical failures during the swap out process.

3.34 Based on analysis of historic data, an adjustment of 10% to the cost per swap out is proposed to reflect the potential costs incurred from unsuccessful first visits. This adjustment is applied by increasing the weighted average swap out cost by 10% to calculate the Reimbursement Amount.

3.35 The value of the Job Completion Adjustment is proposed as an initial estimate. Data gathered through the annual RFI process will include outturn data on success rates in addition to cost data. This evidence will support annual reviews to inform whether the proposed 10% rate is appropriate.

The Communications Hub Replacement Reimbursement Methodology

3.36 Building on the decision points outlined above, which have been considered and developed, this section, and Appendix 1, jointly constitute the Communications Hub Replacement Reimbursement Methodology.

3.37 The Reimbursement Amount will be a single cost covering the successful replacement of a 2G/3G Communications Hub attached to a SMETS2 in the Central and South region with a 4G Communications Hub (referred to as a swap out) where a meter replacement has not taken place. This price will be rounded to the nearest whole pound GBP.

3.38 Outturn cost data for swap out visits will be collected each year from large energy suppliers[14] through a Request for Information (RFI) under the relevant licence conditions[15]. Other industry stakeholders, such as smaller energy suppliers (including those operating solely in the non-domestic sector) and Meter Operators (MOPs) may also submit cost data on a voluntary basis using a shortened RFI template.

3.39 The initial RFI will request outturn costs incurred between 1 April 2025 and 31 August 2025 and will be issued alongside this appendix. This data will inform the Reimbursement Amount from 1 April 2026 to 31 March 2027.

3.40 The RFI will request data on the outturn costs for swap outs carried out by each large energy supplier, including those incurred by internal field force and third-party providers. These costs should be broken down by the four components of the Reimbursement Amount: installer costs, appointment setting, forward logistics and reverse logistics costs. Costs are expected to be provided at this level of granularity. Large energy suppliers will also be asked to report the number of swap outs completed by their internal field force and third-party providers, and the average time taken (in minutes) to complete swap outs.

3.41 An outlier assessment will be conducted to determine whether any of the cost data submitted by large energy suppliers will be excluded from, or adjusted in, the calculation of the Reimbursement Amount. This assessment will be carried out for each of the four cost components: installer costs, appointment setting, forward logistics, and reverse logistics costs. Where a large energy supplier does not provide a breakdown of the cost of a swap out, then the outlier assessment will be applied to the total cost per swap out.

3.42 The outlier assessment will utilise RFI responses provided by large energy suppliers and other industry stakeholders to determine relevant cost benchmarks for each cost component. Swap out costs provided by large energy suppliers will be classified as outliers if they meet the criteria proposed in this consultation and set out on page 25 above.

[14] Large energy suppliers in this context are defined as those organisations which supplied on 31 December the preceding year (whether with electricity, or gas, or both) to more than 250,000 Domestic Energy Premises and are members of DESNZ's Smart Metering Delivery Group (SMDG).
[15] Standard Electricity Licence Conditions 43 and 44, and Standard Gas Licence conditions 37 and 38.

3.43 Any outliers will be excluded as a last resort, with a preference for adjusting costs where there is sufficient evidence available to inform that adjustment. This approach will maximise the use of cost data provided in the calculation of the Reimbursement Amount.

3.44 To calculate the adjusted cost for each large energy supplier, the original cost data will be multiplied by an outlier adjustment factor. This factor will be less than one for a downward adjustment, greater than one for an upward adjustment, and zero where the data is to be fully excluded.

3.45 The adjusted cost data will be weighted and aggregated to calculate a weighted average for each cost component. The weight applied to each individual energy supplier's costs will be calculated by multiplying DCC data on the number of 2G/3G Communications Hubs each large energy supplier has in the Central and South regions of Great Britain (as of Q4 2025) by an outlier adjustment factor. This factor will equal 1-x% if costs have been adjusted downwards by x% and 1/(1+x%) if costs have been adjusted upwards by x%. For example, the outlier adjustment value applied to the weights will therefore be 0.8 if costs are adjusted down by 20% and 0.83 if costs are adjusted upwards by 20%. Adjustments are therefore applied to both the cost and the weights applied to that cost.

3.46 The results of this analysis will be an estimate of the:

i. weighted average installer cost
ii. weighted average appointment setting cost
iii. weighted average forward logistics cost
iv. weighted average reverse logistics cost
v. Where no cost breakdown has been provided, weighted average total site visit cost

3.47 To calculate a single weighted average cost where one or more energy suppliers have not provided a cost breakdown the individual cost components from those who have (installer, appointment setting, forward logistics and reverse logistics) will be combined with the total site visit cost of a swap out. This will be done by:

- multiplying the sum of the individual cost components (from energy suppliers who have provided a cost breakdown) by the proportion of 2G/3G Communications Hubs covered by that cost data, and

- adding this to the total site visit cost (from energy suppliers who have not provided a cost breakdown) multiplied by the proportion of 2G/3G Communications Hubs covered by that cost data, after adjustments.
- This calculation will generate the weighted average cost per successful Communication Hub swap out.

3.48 The weighted average cost per successful swap out will be adjusted for inflation based on historic and forecast Consumer Prices Index including CPIH data published by the OBR. As explained on page 29, the adjustment will inflate costs by 15.5 months for the first period of the Reimbursement Amount, from the midpoint of the period for which outturn costs have been provided (April 2025 to August 2025 for the first period) to the midpoint of the period when the Reimbursement Amount would apply (April 2026 to March 2027). The adjustment will therefore inflate costs by 15.5 months from mid-June 2025 to the end of September 2026. As mid-June will fall between the quarterly data points published by the OBR, the CPIH index will be estimated by considering the change in the CPIH index over the quarter and the number of days elapsed to mid-June.

3.49 As previously outlined on page 29 of this consultation, a Job Completion Adjustment of 10% is proposed to be applied to the weighted average cost to account for the likelihood and cost impact of unsuccessful swap-out visits. This adjustment reflects both the frequency and relative cost of such visits, recognising that some may occur early in the process and have a lower cost impact.

3.50 The RFI attached to this consultation requests data from energy suppliers on the number of attempted but unsuccessful 4G Communications Hub only exchange visits. This data will inform the annual assessment as to whether the Job Completion Adjustment value should be revised.

3.51 The Reimbursement Amount will be reviewed annually as part of the Annual Review process, using outturn data collected via an RFI issued each July. This data, covering the period from the previous June to the end of May of the year the RFI is issued, will be used to inform the Reimbursement Amount for the following year commencing in April.

3.52 The RFI will request the same data as for the first period of the Reimbursement Amount (subject to any changes to the Methodology). This will include outturn cost data for both internal field force and third-party provider costs broken down

by cost component, the number of swap outs completed by each delivery route, the number of first-time swap outs attempted but not completed, and the duration of a successful visit.

3.53 An outlier assessment will be conducted using the same principles set out for the initial period of the Reimbursement Amount. The outlier assessment will also take into consideration if there have been material changes in the cost data submitted by energy suppliers that have not been sufficiently evidenced in their RFI responses. The outlier assessment will be combined with the outturn cost data to estimate the revised weighted average cost of a successful swap out.

3.54 The Job Completion Adjustment will be reviewed annually as part of the annual review process, informed by data requested in the RFI on the number of first-time swap outs attempted but not successfully completed. The inflation adjustment will also be updated to reflect the latest available historic and forecast CPIH data between the midpoint of the period for which the outturn data has been provided, and the midpoint of the year the Reimbursement Amount will apply. These will be combined with the cost data to calculate the Reimbursement Amount for the following year starting in April.

3.55 As part of the Annual Review, following the RFI, DESNZ and Ofgem will decide whether to propose changes to the Reimbursement Amount methodology. If a change is proposed, a consultation will be launched and published on the Ofgem website. Any changes in the Methodology will be reflected in an updated Methodology document. For the avoidance of doubt, a consultation take place only if the update to the Reimbursement Amount involves a change to the underlying methodology. For instance, updating the rate of inflation against the CPIH each year will not trigger a consultation. However, if we decide to change the index for inflation, that will trigger a consultation.

The proposed Reimbursement Amount formula

3.56 The overarching formula that we propose to use to determine the Reimbursement Amount (p) is shown in the equation below. The formula combines cost data from both energy suppliers who have provided a cost breakdown and for those who have not. The cost data is then adjusted for inflation (π) and the Job Completion Adjustment (JCA).

$$p = [(INSTALL + APPT + FOR + REV) \times W_1 + (TOTAL) \times W_2] \times (1 + \pi)(1 + JCA)$$

Where:

$INSTALL$ represents the weighted average installer cost for large energy suppliers that have provided a cost breakdown and that have not been excluded as outliers. Where installer costs have been adjusted (upwards or downwards) their corresponding weighting would be amended proportionally to the adjustment applied.

$APPT$ represents the weighted average appointment setting cost for large energy suppliers that have provided a cost breakdown and that have not been excluded as outliers. Where adjustments are applied to these costs (upwards or downwards) their corresponding weighting would be amended proportionally to the adjustment applied.

FOR represents the weighted average forward logistics cost for large energy suppliers that have provided a cost breakdown and that have not been excluded as outliers. Where adjustments are applied to these costs (upwards or downwards) their corresponding weighting would be amended proportionally to the adjustment applied.

REV represents the weighted average reverse logistics cost for large energy suppliers that have provided a cost breakdown and that have not been excluded as outliers. Where adjustments are applied to these costs (upwards or downwards) their corresponding weighting would be amended proportionally to the adjustment applied.

$TOTAL$ represents the weighted average site visit cost for large energy suppliers that have *not* provided a cost breakdown and that have not been excluded as outliers. Where adjustments are applied to these costs (upwards or downwards) their corresponding weighting would be amended proportionally to the adjustment applied.

W_1 represents the proportion of Communications Hubs associated with large energy supplier cost data where a cost breakdown has been provided (where appropriate, adjusted) and that have not been excluded as outliers.

W_2 represents the proportion of Communications Hubs associated with large energy supplier cost data where a cost breakdown has not been provided (where appropriate, adjusted) and that have not been excluded as outliers.

π represents the inflation rate adjustment based on the CPIH to convert overall weighted average outturn cost data to reflect the equivalent cost for the period the Reimbursement Amount will apply.

JCA represents the Job Completion Adjustment, which covers the additional costs incurred by large energy suppliers for first time swap outs attempted that are not successfully completed.

3.57 A detailed breakdown explaining how the above components of the formula are calculated is set out in Appendix 1.

4. Setting an indicative price

This section sets out the indicative Reimbursement Amount for a 4G Communications Hub only exchange site visit based on the minded to methodology proposed in this consultation. The underlying data used for the calculations was provided by large energy suppliers to DESNZ in November 2024 in response to an RFI. The figures shown represent a range, illustrating how cost data will be assessed as part of the proposed methodology. This range do not constitute the proposed value of the Reimbursement Amount, which may ultimately fall above or below this range. The final Reimbursement Amount will be determined following the outcome of this consultation.

Indicative range for the Reimbursement Amount

4.1 An RFI was issued to eight large energy suppliers in November 2024, requesting estimated costs of Communication Hubs swap outs including estimates of the individual cost components for swap outs, for both internal field force and third-party providers.

4.2 An assessment of the data was undertaken, and adjustments were made to some data provided by large energy suppliers by applying the criteria set out in the Methodology proposed in this consultation. This involved adjusting some energy supplier cost data (either upwards or downwards) where it was below or above cost benchmarks provided by MOPs, or where it was higher than similar costs for a SMETS2 single fuel electricity installation. The outlier assessment was varied to establish the lower and upper bounds of the range for the Reimbursement Amount.

4.3 Following the methodology approach explained above, the weighted average cost for a swap out was estimated to be £93-£105. In our engagement with energy suppliers, it was flagged that most responses were based on planned or forecast costs. Therefore, for the purpose of this assessment, no inflation adjustment has been applied.

4.4 A Job Completion Adjustment of 10% was then applied to the above range resulting in an indicative range for the Reimbursement Amount of **£100-£115**.

5. The annual review process

This section sets out the proposed process for the annual review of the Reimbursement Amount that will take place each year until the end of the Communications Hubs replacement activity, and the methodology that underpins it. The proposal outlines the steps involved in the annual data collection, review, and the decision-making process regarding any potential changes to the methodology. It also clarifies the roles and responsibilities of Ofgem, DESNZ, and the DCC. It also outlines the data requirements for the annual RFI submissions required by large energy suppliers and requested from small energy suppliers and MOPs (on a voluntary basis).

Questions

Q8. Do you agree with the proposed annual review process? Please provide rationale and evidence to support your answer.

Q9. Do you consider that an alternative review process might better reflect changes in market conditions and support a more accurate and realistic Reimbursement Amount? Please provide rationale and evidence to support your answer.

Q10. Do you have any other comments on the proposed annual review process?

Please provide any supporting evidence or data to substantiate your responses, where applicable.

Summary of the annual review approach

Purpose of the annual review

5.1 The Reimbursement Amount is being introduced in advance of widespread market activity to replace 2G/3G with 4G Communications Hubs. Therefore, it is important that the Reimbursement Amount remains adaptable through annual reviews. These reviews will ensure that the price can reflect:

1. Changes in costs throughout the lifetime of the Reimbursement Amount, ensuring it continues to reflect actual costs incurred by the market.
2. Additional insight from energy suppliers and third parties on factors such as success rates, appointment duration and evolving associated costs as more site visits are completed. This is particularly important given there has been limited outturn cost data currently available from Communications Hub replacement activity.

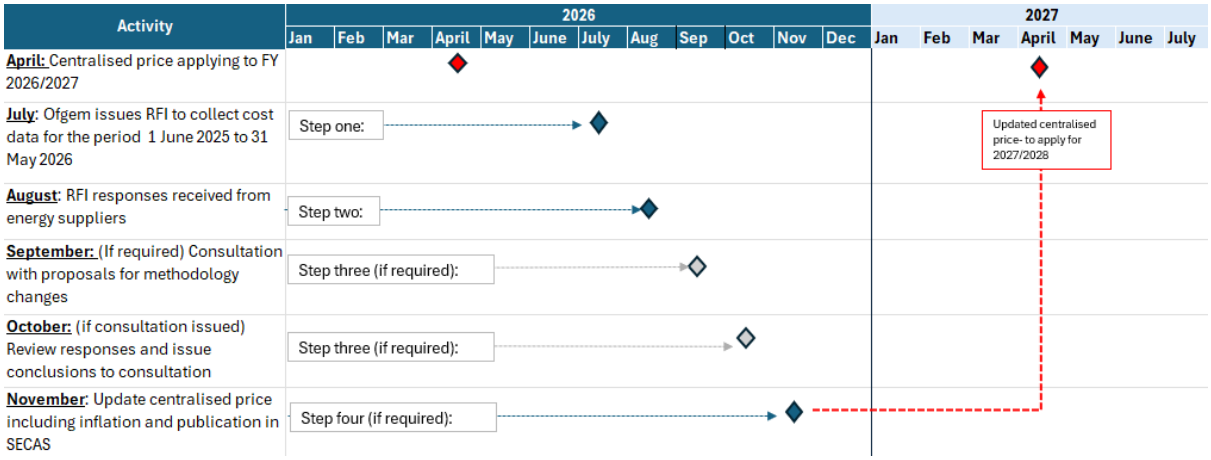
The annual review process

5.2 An annual process to gather and review the latest cost data from energy suppliers is a core part of the proposed Reimbursement Amount methodology. This process must take place sufficiently in advance of the start of the new Reimbursement Amount period to allow the market adequate time to plan, and to enable the DCC to incorporate any updates in its Charging Statement.

5.3 The Reimbursement Amount will apply from the period of 1st April to 31st March of the following year. The DCC is required to communicate to Ofgem any updates to their Charging Statement by the 1st of January of each year (three months in advance of the new Regulatory Year). As a result, the Annual Review process will begin shortly after the previous Centralised Price has been implemented.

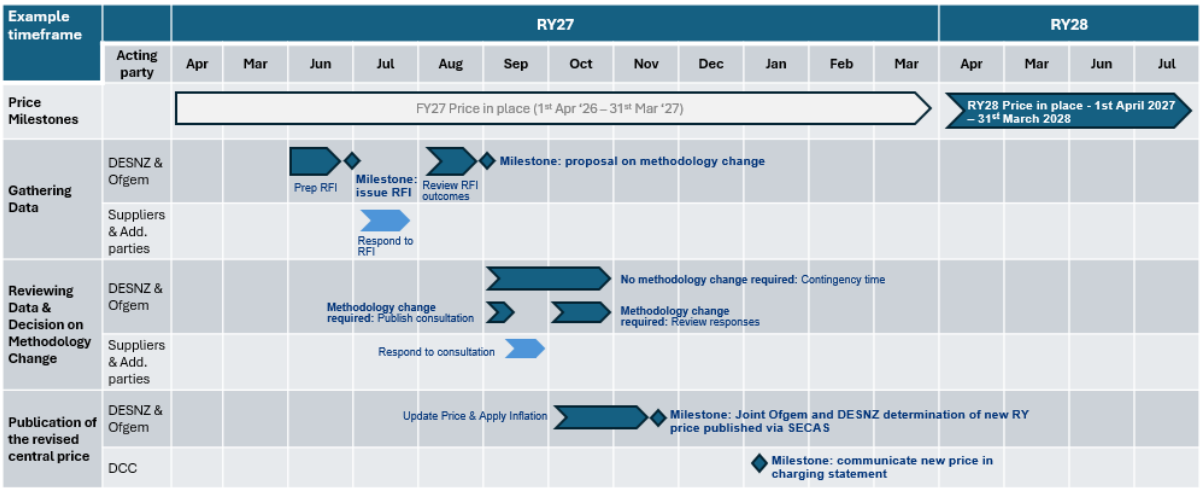
5.4 Figure 1 below outlines the high-level steps involved in the Annual Review Process during a review year, using Regulatory Year RY 27 as an example. The figure illustrates how the process followed to update the centralised price for 2027/2028.

Figure 1: Annual Review Process



5.5 Figure 2 below illustrates the timescales for implementing the Reimbursement Amount for the Regulatory Year 2028 Centralised Price following completion of the first annual review. The figure also outlines the proposed milestones for setting the price including the responsibilities for each of the parties involved in the process.

Figure 2: RY 2028 Reimbursement Amount Implementation Timelines



5.6 Gathering data: The high-level review process is summarised in **Error! Reference source not found.**. As part of this, we propose that Ofgem will issue an RFI in July of the preceding year to when the price will apply via email to large energy suppliers, who will be required to submit a response. A shortened version of the RFI will also be developed for additional industry parties such as MOPs, smaller energy suppliers and non-domestically focussed energy suppliers who will be invited to respond on a voluntary basis. The RFI is to be completed before the end of July and will request outturn cost data for completed Communications Hub replacement visits, both via in-house and third-party arrangements for the period 1st June of the prior year to 31st May of the year the RFI was issued. Whilst this timeframe does not align with the Regulatory Year period, it ensures that the most up to date cost data is available to inform the Annual Review process. For more detail on the data requirements proposed for this RFI see Appendix 3 – Data Requirements for setting the Reimbursement Amount for 2026-2027 'Data Requirements' on page 45. Throughout July of any given replacement window year, DESNZ and Ofgem will gather and review supporting information on the total number of Communications Hub replacements completed, as well as energy supplier experience of the Communications Hub replacement process. These inputs will help contextualise the outturn cost data when reviewing the RFI responses.

5.7 Reviewing data and the decision-making process on methodology changes: Following receipt of RFI responses, we propose that DESNZ and Ofgem will review the submissions to inform a decision (by late August) whether a consultation on proposed methodology changes is required. The core input to

this review will be the returns from large energy suppliers. While returns from other industry parties (such as MOPs and small suppliers) will not feed directly into the Reimbursement Amount calculation, they will support wider benchmarking and help identify cost outliers within the energy supplier cost data. Further information on the criteria for methodology changes is provided in section 'Changes to methodology' on page 47. In general, changes may be triggered by shifts in the underlying assumptions of the Reimbursement Amount, such as: revisions to the Job Completion Adjustment rate, revisions to the proposed minimum required skillset/certification level for installers carrying out the 4G Communications Hub replacement activity, or updates to the Reverse Logistics process noting the ongoing proposal to be able to introduce a new large volume returns process for Communications Hubs.

5.8 If a methodology change is required: We propose that DESNZ and Ofgem will prepare a short consultation document outlining the proposed revisions to the methodology. This will be published on the Ofgem website in the second week of September for a proposed three-week consultation period, open to responses from all stakeholders, with responses due by the end of September. The consultation window could be extended if a number of changes were proposed for consideration. Stakeholders will be informed via a notification on the Ofgem website one week in advance of the consultation publication date that DESNZ and Ofgem intend to publish a consultation on a potential methodology change and will be seeking stakeholder input.

5.9 Following the September consultation (if required), we propose that DESNZ and Ofgem will review all responses received alongside the RFI submissions received in July. This review process will inform the final determination on any changes to the methodology to account for both the methodological changes, in addition to amendments to cost inputs and the treatment of any outliers identified in the RFI outputs. By the end of November, DESNZ and Ofgem would publish a joint consultation response document (if a consultation has taken place), as well as a joint determination letter confirming the revised Reimbursement Amount.

5.10 If a methodology change is not required: Between August and October, we propose that DESNZ and Ofgem will assess the RFI outputs and determine any necessary changes to the Reimbursement Amount including the treatment of any outliers as appropriate. If no announcement has been made to industry via the Ofgem website before the second week of September, this will indicate that there will not be a methodology change proposal or supporting consultation. In

this case, industry can expect to receive an update on the revised Reimbursement Amount by the end of November.

5.11 Publication of the revised Reimbursement Amount: We propose that a joint DESNZ and Ofgem determination letter will be published on the SECAS website by the end of November each year to confirm the new Reimbursement Amount, until a date to be determined whereby full responsibility transfers to Ofgem.

Key roles and responsibilities:

5.12 In the context of undertaking the annual review of the Reimbursement Amount there are a range of stakeholders with distinct responsibilities including DESNZ, Ofgem, large energy suppliers, the DCC, MOPs and smaller energy suppliers[16]. Below, we propose the key roles and responsibilities for each of these parties.

5.13 DESNZ and Ofgem will[17]:

- Co-lead the annual review process, to determine whether an adjustment of the Reimbursement Amount is required ahead of 1 April each year during the replacement window.
- Prepare and publish two RFI templates annually: one for large energy suppliers (mandatory), and a shorter version for other industry parties such as MOPs and smaller energy suppliers (optional).
- Review the annual RFI submissions to assess potential adjustments to the price components and the overall Reimbursement Amount.
- Evaluate whether significant market changes, such as shifts in the weighted average costs across large energy suppliers, warrant any changes to the weighting applied to these costs. If changes are required, revised weightings will be applied in the annual Reimbursement Amount calculation.
- In the event that a change to the methodology is proposed, notify stakeholders, then prepare and publish a supporting consultation (see

[16] To note that only large energy suppliers will be formally required to submit information to both Ofgem and DESNZ, as the RFI will be requested under relevant Gas and Electricity Supply Standard Licence Conditions. We recognise that there would be no requirement on MOPs and smaller energy suppliers to provide this information.
[17] Until such point where the Secretary of State for Energy Security and Net Zero has issued a direction transferring such responsibility solely to the Authority.

'Changes to the methodology' on page 47), reviewing the responses and publishing a response to confirm a final position.

5.14 Large energy suppliers would be required[18] to:

- Respond to the annual RFI to submit cost data relating to historic 4G Communications Hub only exchange site visit activity.

5.15 DCC will be required to:

- Provide periodic reporting to DESNZ and Ofgem on Communications Hub volumes, to support tracking of Communications Hub replacement activity, and inform changes to weighted average weightings for large energy suppliers, as required.
- Update its Charging Statements to incorporate the Reimbursement Amount ahead of the 1st April of each year from Regulatory Year 2026-2027 onwards.

5.16 MOPs will be *invited* to:

- Respond to the annual RFI to submit cost data relating to historic 4G Communications Hub only exchange site visit activity

5.17 Smaller *energy* suppliers, including non-domestic only, will be *invited* to:

- Respond to the annual RFI to submit cost data relating to historic 4G Communications Hub only exchange site visit activity.

5.18 All parties will have the opportunity to respond to a consultation regarding a proposed methodology change.

Review of individual cost components & accounting for inflation:

5.19 The annual RFI will collect data on each of the individual cost components. After reviewing and assuring that these are consistent with the principles for inclusion set out in Chapter 2, we propose that these components will be adjusted as necessary, and subject to an inflation uplift. See table 1 below for further detail.

Table 1 Adjustment approach for each cost component

[18] As per Electricity Supply Standard Licence Conditions 43 and 44, and Gas Supply Standard Licence Conditions 37 and 37 which relate to the provision of information to the Secretary of State and the Authority.

Reimbursement Amount Cost Component	**Cost inputs to be adjusted by inflation?**	**Supporting information**
Installer cost	Yes	Outturn costs are adjusted by inflation in order to reflect the expected costs for the time period in which they will be incurred – i.e. the following financial year.
Cost of appointment	Yes	
Forward Logistics	Yes	
Reverse Logistics	Yes	
Job completion adjustment	No	This cost is calculated separately from the weighted average, as a fixed percentage applied to the four other cost components, or to the cost per swap out where no cost breakdown has been provided

5.20 In the proposed annual review process, costs submitted through the annual RFI will be reflective of the activity undertaken during the period from June to May in the year preceding the applicable Reimbursement Amount. An inflationary adjustment will be applied to ensure these costs are representative of the period in which they will be incurred.

5.21 It is important to note that subject to fluctuations in cost inputs and changes in inflation, there could be contrasting factors inputting to the Reimbursement Amount (i.e., the installer cost may increase equally to a decrease in reverse logistic costs). As a result, there may be instances where these opposing effects lead to no net change in the price for the following year.

Data Requirements

5.22 Table 2 summarises the proposed cost input components required for the annual review of the Reimbursement Amount. These components will come from a range of sources including a direct RFI issued to large energy suppliers (as well as MOPs and smaller energy suppliers on a voluntary basis), as well as supporting benchmarking data from the DCC and Annual Supplier Returns submitted to DESNZ and Ofgem.

Table 2 Data Requirements for the Annual Review process

Purpose	**Information required**	**Source**	**Data points**
To inform the Annual Review inputs	Outturn 4GCH only exchange site visit costs from large energy suppliers for both third parties and internal field force	Annual 4GCH Reimbursement Amount RFI – large energy suppliers	• In house site visit cost breakdown: Total visit cost, Installer cost, Appointment Setting cost, Forward Logistics, Reverse Logistics, Other costs • 3rd party site visit cost breakdown: Total visit cost, Installer cost, Appointment Setting cost, Forward Logistics, Reverse Logistics, Other costs • Average duration of a successful site visit (in minutes) broken down by in house and 3rd party
	Site visit activity summary		• Number of visits completed, proportion of these visits completed via in house vs 3rd parties • Number of first time 4GCH replacement visits attempted but not successfully completed (including no-access appointments and same day customer-led cancellations) • Duration of a successful 4GCH only exchange site visit (in minutes) broken down by in house and third parties

	Cost of 4GCH only exchange site visits by smaller energy suppliers and MOPs	Annual 4GCH Reimbursement Amount RFI – Additional parties (e.g. MOPs, smaller energy suppliers)	As applicable: • In house site visit cost: Total visit cost optional to then provide a breakdown by category Installer cost, Appointment Setting cost, Forward Logistics, Reverse Logistics, Other costs. • 3rd party site visit cost: Total visit cost – optional to then provide a breakdown by category Installer cost, Appointment Setting cost, Forward Logistics, Reverse Logistics, Other costs. • Note data collection from these parties would be optional.
Inflation adjustment	Inflation adjustment - CPIH	Office for Budget Responsibility	• Subject to consultation timeframes, calculate inflation to cover activity across April *YY* – March *YY* of the follow annual price period.
Additional Benchmarking	Number of 2G/3G CH installed in C&S as of Q4 2025	DCC data	• Number of 2G/3G CH installed
	DCC Industry data on 4G CH only exchange site visit	DCC data	• Overall volume of CH replacements completed

	Overall failure rate for 4GCH only exchange site visits	Large energy supplier SMETS2 install domestic benchmarking waterfall data	• Overall Job Completion rate (%) across large energy suppliers for SMETS2 installs Existing benchmarking data for the weighted average large supplier operational failure rate for new installs (on the day failure) will be used, where there is consistency in the underlying reasons for failure across SMETS2 installation and a 4GCH-only exchange site visit.
	4GCH only exchange site visit cost data to triangulate with energy supplier submissions	DESNZ ASR data	• SMETS2 single fuel electricity installation cost per SMDG energy supplier – in house and 3rd party

Changes to methodology

5.23 As part of the annual review, following analysing the RFI responses, we propose that DESNZ and Ofgem will assess whether a change to the Reimbursement Amount methodology is required. If so, a joint consultation will be published on the Ofgem website. Any agreed changes in the Methodology will be reflected in a revised Methodology document.

5.24 Methodology changes are expected to be proposed only under specific conditions, including:

i. Installer skillset/certification assumptions: Revisions to the assumed qualifications or certification levels required for operatives conducting 4G Communications Hub only exchange. The current methodology assumes the resource required to complete a 4G Communications Hub only exchange does not require the same level of certification as an installer who completes new SMETS2 installations.

ii. The job completion rate inputs or calculation approach: Updates to the assumed job completion rate for replacement site visits. This will be informed by data outputs from the annual RFI relating to 4G Communications Hub only exchange activity.

iii. A change to the overall methodology formula: For example, modifications to the cost components included in the Reimbursement Amount as set out in Chapter 2.

5.25 The following types of changes are not expected to trigger a methodology consultation:

i. Changes to the typical duration of a 4G Communications Hub only exchange site visit. The methodology already allows for variation across different energy suppliers and does not assume a fixed duration.

5.26 Changes which would still be reflected in the price, but we anticipate would not trigger the requirement for a methodology change or consultation:

i. Updates to energy supplier weightings as a result of market entry or exit activity. These changes will be included in the Reimbursement Amount calculations but will not be consulted on as disclosing individual supplier weightings would be commercially sensitive.

Appendices

Appendix	Name of appendix	Page no.
1	The formula for the Reimbursement Amount	
2	Example calculation of the weighted average cost of a swap out	
3	Data requirements for setting the Reimbursement Amount for 2026-2027	
4	Glossary	
5	Privacy notice on consultations	

Appendix 1 – The formula for the Reimbursement Amount

The overarching formula used to determine the Reimbursement Amount (p) is shown in the equation below. The formula combines cost data from both energy suppliers who have provided a cost breakdown and for those who have not. The cost data is then adjusted for inflation (π) and the Job Completion Adjustment (JCA).

$$p = [(INSTALL + APPT + FOR + REV) \times W_1 + (TOTAL) \times W_2] \times (1 + \pi)(1 + JCA)$$

Where:

$INSTALL$ represents the weighted average installer cost for large energy suppliers that have provided a cost breakdown and that have not been excluded as outliers. Where installer costs have been adjusted (upwards or downwards) their corresponding weighting would be amended proportionally to the adjustment applied.

$APPT$ represents the weighted average appointment setting cost for large energy suppliers that have provided a cost breakdown and that have not been excluded as outliers. Where adjustments are applied to these costs (upwards or downwards) their corresponding weighting would be amended proportionally to the adjustment applied.

FOR represents the weighted average forward logistics cost for large energy suppliers that have provided a cost breakdown and that have not been excluded as outliers. Where adjustments are applied to these costs (upwards or downwards) their corresponding weighting would be amended proportionally to the adjustment applied.

REV represents the weighted average reverse logistics cost for large energy suppliers that have provided a cost breakdown and that have not been excluded as outliers. Where adjustments are applied to these costs (upwards or downwards) their corresponding weighting would be amended proportionally to the adjustment applied.

$TOTAL$ represents the weighted average site visit cost for large energy suppliers that have *not* provided a cost breakdown and that have not been excluded as outliers. Where adjustments are applied to these costs (upwards or downwards)

their corresponding weighting would be amended proportionally to the adjustment applied.

W_1 represents the proportion of Communications Hubs associated with large energy supplier cost data where a cost breakdown has been provided (where appropriate, adjusted) and that have not been excluded as outliers.

W_2 represents the proportion of Communications Hubs associated with large energy supplier cost data where a cost breakdown has not been provided (where appropriate, adjusted) and that have not been excluded as outliers.

π represents the inflation rate adjustment based on the CPIH to convert overall weighted average outturn cost data to reflect the equivalent cost for the period the Reimbursement Amount will apply.

JCA represents the Job Completion Adjustment, which covers the additional costs incurred by large energy suppliers for first time swap outs attempted that are not successfully completed.

The weighted average installer cost (INSTALL) is equal to the total installer costs divided by the total number (where appropriate, adjusted) of 2G/3G Communications Hubs associated with those costs. Total installer costs are the sum of total internal field force and third-party installer costs for large energy suppliers that provide a cost breakdown, after adjusting or excluding outliers. As described in the methodology above, if the cost data for a large energy supplier is adjusted up or down, the weight applied to that cost will be adjusted downwards.

$$INSTALL = \frac{\sum[INSi_s \times Ai_s \times BREAKi_s \times AAi_s \times wi_s] + \sum[INSe_s \times Ae_s \times BREAKe_s \times AAe_s \times we_s]}{\sum[BREAKi_s \times AAi_s \times wi_s] + \sum[BREAKe_s \times AAe_s \times we_s]}$$

Where:

$INSi_s$ is the installer cost for large energy supplier s using their internal field force

$INSe_s$ is the installer cost for large energy supplier s using a third party provider

$BREAKi_s$ is a dummy variable for large energy supplier s which is 1 if a cost breakdown has been provided for internal field force costs and 0 otherwise

$BREAKe_s$ is a dummy variable for large energy supplier s which is 1 if a cost breakdown has been provided for third party provider costs and 0 otherwise

Ai_s is the outlier adjustment variable applied to internal field force installer costs provided by large energy supplier s and is equal to 1 if the data is not an outlier

Ae_s is the outlier adjustment variable applied to third party installer costs provided by large energy supplier s and is equal to 1 if the data is not an outlier

AAi_s is the outlier adjustment variable applied to the weight for internal field force installer costs provided by large energy supplier s and is equal to Ai_s if costs have been adjusted downwards and $1/Ai_s$ if costs have been adjusted upwards

AAe_s is the outlier adjustment variable applied to the weight for third party installer costs provided by large energy supplier s and is equal to Ae_s if costs have been adjusted downwards and $1/Ae_s$ if costs have been adjusted upwards

wi_s is the number of 2G/3G Communications Hubs for large energy supplier s as of Q4 2025 multiplied by the proportion of swap outs completed in the previous year by large energy supplier s using their internal field force

we_s is the number of 2G/3G Communications Hubs for large energy supplier s as of Q4 2025 multiplied by the proportion of swap outs completed in the previous year by large energy supplier s using a third party provider

The formula for the appointment setting, forward logistics and reverse logistics terms ($APPT$, FOR and REV) follows the same structure as the formula for installer costs. These are shown below.

$$APPT = \frac{\sum[APPi_s \times Bi_s \times BREAKi_s \times BBi_s \times wi_s] + \sum[APPe_s \times Be_s \times BREAKe_s \times BBe_s \times we_s]}{\sum[BREAKi_s \times BBi_s \times wi_s] + \sum[BREAKe_s \times BBe_s \times we_s]}$$

Where:

$APPi_s$ is the appointment setting cost for large energy supplier s using their internal field force

$APPe_s$ is the appointment setting cost for large energy supplier s using a third party provider

$BREAKi_s$ is a dummy variable for large energy supplier s which is 1 if a cost breakdown has been provided for internal field force costs and 0 otherwise

$BREAKe_s$ is a dummy variable for large energy supplier s which is 1 if a cost breakdown has been provided for third party provider costs and 0 otherwise

Bi_s is the outlier adjustment variable applied to internal field force appointment setting costs provided by large energy supplier s and is equal to 1 if the data is not an outlier

Be_s is the outlier adjustment variable applied to third party appointment setting costs provided by large energy supplier s and is equal to 1 if the data is not an outlier

BBi_s is the outlier adjustment variable applied to the weight for internal field force appointment setting costs provided by large energy supplier s and is equal to Bi_s if costs have been adjusted downwards and $1/Bi_s$ if costs have been adjusted upwards

BBe_s is the outlier adjustment variable applied to the weight for third party appointment setting costs provided by large energy supplier s and is equal to Be_s if costs have been adjusted downwards and $1/Be_s$ if costs have been adjusted upwards

wi_s is the number of 2G/3G Communications Hubs for large supplier s as of Q4 2025 multiplied by the proportion of swap outs completed in the previous year by supplier s using their internal field force

we_s is the number of 2G/3G Communications Hubs for large supplier s as of Q4 2025 multiplied by the proportion of swap outs completed in the previous year by supplier s using a third party provider

$$FOR = \frac{\sum[FORi_s \times Ci_s \times BREAKi_s \times CCi_s \times wi_s] + \sum[FORe_s \times Ce_s \times BREAKe_s \times CCe_s \times we_s]}{\sum[BREAKi_s \times CCi_s \times wi_s] + \sum[BREAKe_s \times CCe_s \times we_s]}$$

Where:

$FORi_s$ is the forward logistics cost for large energy supplier s using their internal field force

$FORe_s$ is the forward logistics cost for large energy supplier s using a third party provider

$BREAKi_s$ is a dummy variable for large energy supplier s which is 1 if a cost breakdown has been provided for internal field force costs and 0 otherwise

$BREAKe_s$ is a dummy variable for large energy supplier s which is 1 if a cost breakdown has been provided for third party provider costs and 0 otherwise

Ci_s is the outlier adjustment variable applied to internal field force forward logistics costs provided by large energy supplier s and is equal to 1 if the data is not an outlier

Ce_s is the outlier adjustment variable applied to third party forward logistics costs provided by large energy supplier s and is equal to 1 if the data is not an outlier

CCi_s is the outlier adjustment variable applied to the weight for internal field force forward logistics costs provided by large energy supplier s and is equal to Ci_s if costs have been adjusted downwards and $1/Ci_s$ if costs have been adjusted upwards

CCe_s is the outlier adjustment variable applied to the weight for third party forward logistics costs provided by large energy supplier s and is equal to Ce_s if costs have been adjusted downwards and $1/Ce_s$ if costs have been adjusted upwards

wi_s is the number of 2G/3G Communications Hubs for large energy supplier s as of Q4 2025 multiplied by the proportion of swap outs completed in the previous year by large energy supplier s using their internal field force

we_s is the number of 2G/3G Communications Hubs for large energy supplier s as of Q4 2025 multiplied by the proportion of swap outs completed in the previous year by large energy supplier s using a third party provider

$$REV = \frac{\sum[REVi_s \times Di_s \times BREAKi_s \times DDi_s \times wi_s] + \sum[REVe_s \times De_s \times BREAKe_s \times DDe_s \times we_s]}{\sum[BREAKi_s \times DDi_s \times wi_s] + \sum[BREAKe_s \times DDe_s \times we_s]}$$

Where:

$REVi_s$ is the reverse logistics cost for large energy supplier s using their internal field force

$REVe_s$ is the reverse logistics cost for large energy supplier s using a third party provider

$BREAKi_s$ is a dummy variable for large energy supplier s which is 1 if a cost breakdown has been provided for internal field force costs and 0 otherwise

$BREAKe_s$ is a dummy variable for large energy supplier s which is 1 if a cost breakdown has been provided for third party provider costs and 0 otherwise

Di_s is the outlier adjustment variable applied to internal field force reverse logistics costs provided by large energy supplier s and is equal to 1 if the data is not an outlier

De_s is the outlier adjustment variable applied to third party reverse logistics costs provided by large energy supplier s and is equal to 1 if the data is not an outlier

DDi_s is the outlier adjustment variable applied to the weight for internal field force reverse logistics costs provided by large energy supplier s and is equal to Di_s if costs have been adjusted downwards and $1/Di_s$ if costs have been adjusted upwards

DDe_s is the outlier adjustment variable applied to the weight for third party reverse logistics costs provided by large energy supplier s and is equal to De_s if costs have been adjusted downwards and $1/De_s$ if costs have been adjusted upwards

wi_s is the number of 2G/3G Communications Hubs for large energy supplier s as of Q4 2025 multiplied by the proportion of swap outs completed in the previous year by large energy supplier s using their internal field force

we_s is the number of 2G/3G Communications Hubs for large energy supplier s as of Q4 2025 multiplied by the proportion of swap outs completed in the previous year by large energy supplier s using a third party provider

The formula for total site visit costs for large energy suppliers that have not provided a cost breakdown (TOTAL) follows a similar structure to installer, appointment setting, forward logistics and reverse logistics costs. The only exception is that the cost data is multiplied by one minus the cost breakdown variable as shown in the equation below.

$$TOTAL = \frac{\sum[TOTi_s \times E_s \times (1 - BREAKi_s) \times EEi_s \times wi_s] + \sum[TOTe_s \times Ee_s \times (1 - BREAKe_s) \times EEe_s \times we_s]}{\sum[(1 - BREAKi_s) \times EEi_s \times wi_s] + \sum[(1 - BREAKe_s) \times EEe_s \times we_s]}$$

Where:

$TOTi_s$ is the total site visit cost for large energy supplier s using their internal field force

$TOTe_s$ is the total site visit cost for large energy supplier s using a third party provider

$BREAKi_s$ is a dummy variable for large energy supplier s which is 1 if a cost breakdown has been provided for internal field force costs and 0 otherwise

$BREAKe_s$ is a dummy variable for large energy supplier s which is 1 if a cost breakdown has been provided for third party provider costs and 0 otherwise

Ei_s is the outlier adjustment variable applied to internal field force total site visit cost provided by large energy supplier s and is equal to 1 if the data is not an outlier

Ee_s is the outlier adjustment variable applied to third party total site visit cost provided by large energy supplier s and is equal to 1 if the data is not an outlier

EEi_s is the outlier adjustment variable applied to the weight for internal field force total site visit costs provided by large energy supplier s and is equal to Ei_s if costs have been adjusted downwards and $1/Ei_s$ if costs have been adjusted upwards

EEe_s is the outlier adjustment variable applied to the weight for third party total site visit costs provided by large energy supplier s and is equal to Ee_s if costs have been adjusted downwards and $1/Ee_s$ if costs have been adjusted upwards

wi_s is the number of 2G/3G Communications Hubs for large energy supplier s as of Q4 2025 multiplied by the proportion of swap outs completed in the previous year by large energy supplier s using their internal field force

we_s is the number of 2G/3G Communications Hubs for large energy supplier s as of Q4 2025 multiplied by the proportion of swap outs completed in the previous year by large energy supplier s using a third party provider

The site visit costs for large energy suppliers providing a cost breakdown are multiplied by a weight, W_1, which reflects the proportion of 2G/3G Communications Hubs associated with the cost data provided by large energy suppliers that provide a cost breakdown, after adjusting for outliers. The formula for W_1 is shown below.

$$\boldsymbol{W_1 = \frac{wINS + wAPPT + wFOR + wREV}{wINS + wAPPT + wFOR + wREV + wTOT}}$$

Where:

$$\boldsymbol{wINS} = \%INSTALL \times [\sum[BREAKi_s \times AAi_s \times wi_s] + \sum[BREAKe_s \times AAe_s \times we_s]]$$

$$\boldsymbol{wAPPT} = \%APPT \times [\sum[BREAKi_s \times BBi_s \times wi_s] + \sum[BREAKe_s \times BBe_s \times we_s]]$$

$$\boldsymbol{wFOR} = \%FOR \times [\sum[BREAKi_s \times CCi_s \times wi_s] + \sum[BREAKe_s \times CCe_s \times we_s]]$$

$$\boldsymbol{wREV} = \%REV \times [\sum[BREAKi_s \times DDi_s \times wi_s] + \sum[BREAKe_s \times DDe_s \times we_s]]$$

$$\boldsymbol{wTOT} = [\sum[(1 - BREAKi_s) \times EEi_s \times wi_s] + \sum[(1 - BREAKe_s) \times EEe_s \times we_s]]$$

$\%INSTALL$ is the proportion of the swap out costs for large energy suppliers that provide a cost breakdown that are installer costs, as defined by $INSTALL$

$\%APPT$ is the proportion of the swap out costs for large energy suppliers that provide a cost breakdown that are appointment setting costs, as defined by $APPT$

$\%FOR$ is the proportion of the swap out costs for large energy suppliers that provide a cost breakdown that are forward logistics costs, as defined by FOR

$\%REV$ is the proportion of the swap out costs for large energy suppliers that provide a cost breakdown that are reverse logistics costs, as defined by REV

The total site visit costs are multiplied by W_2, which reflects the proportion of 2G/3G Communications Hubs associated with the cost data provided by large energy suppliers that do not provide a cost breakdown, after adjusting for outliers. The formula for W_2 is shown below.

$$\boldsymbol{W_2} = \frac{\boldsymbol{wTOT}}{\boldsymbol{wINS} + \boldsymbol{wAPPT} + \boldsymbol{wFOR} + \boldsymbol{wREV} + \boldsymbol{wTOT}}$$

The values for the Job Completion Adjustment and inflation are inputs only and do not have separate formulae.

Appendix 2 – Example calculation of the weighted average cost of a swap out

The calculation of the weighting of costs and the resulting Reimbursement Amount is illustrated in the example below for a single large energy supplier, Supplier A.

The example in this section is entirely illustrative. We are providing this example to help show how the calculation steps would work. We emphasise that any cost figures should in no way be treated as an indication of the likely Reimbursement Amount.

The large energy supplier is assumed to have one million 2G/3G Communications Hubs in the Central and South region with an 80:20 split between swap outs completed by its internal field force and third-party provider respectively. The energy supplier provides a cost breakdown for their internal field force cost but only a total cost for their third-party provider costs. Two scenarios have been illustrated to demonstrate how outlier assessments will impact an individual energy supplier's contribution to the Reimbursement Amount.

In scenario 1, none of the cost data provided by the energy supplier is identified as an outlier. The weight applied to the cost data where the energy supplier has provided a cost breakdown (i.e. internal field force costs) is 80%. The weight applied to the cost data where the energy supplier has not provided a cost breakdown (i.e. the third-party costs) is 20%. The weighted average cost for a successful swap out would be £104 if it were only based on cost data from Supplier A.

In scenario 2, the internal field force installer cost is identified as an outlier. A downward adjustment of 20% is applied to the installer cost to bring it into line with other cost benchmarks collected through the same RFI. The weight for the installer cost is also reduced by 20%. This leads to the number of 2G/3G Communications Hubs covered by the cost data where a cost breakdown has been provided falling from 0.8 million to 0.65 million, which reduces the weight from 80% to 77%. The weight applied to the cost data where the energy supplier has not provided a cost breakdown (i.e. the third-party costs) would increase from 20% to 23%. The weighted average cost for a successful swap out would fall to £88 if it were only based on cost data from Supplier A.

In scenario 3, the energy supplier submits a different third-party cost estimate which is identified as an outlier as it is below other cost benchmarks. An upward adjustment is applied, doubling the third-party provider cost per site visit from £40 to £80. This leads to the number of 2G/3G Communications Hubs covered by the cost data where a cost breakdown has not been provided falling from 0.2 million to 0.1 million, which reduces

the weight from 20% to 11%. The weight applied to the cost data where the energy supplier has provided a cost breakdown (i.e. the internal field force costs) would increase from 80% to 89%. The weighted average cost for a successful swap out would be £107 if it were only based on cost data from Supplier A.

	Scenario 1	**Scenario 2**	**Scenario 3**
Cost and volume data			
Internal field force: Installer cost	£100	£100	£100
Internal field force: Appointment setting	£5	£5	£5
Internal field force: Forward logistics	£3	£3	£3
Internal field force: Reverse logistics	£2	£2	£2
Internal field force: Total cost per site visit	£110	£110	£110
Third party provider: Total cost per site visit	£80	£80	£40
Number of 2G/3G Communications Hubs in Central & South	1 million	1 million	1 million
Proportion of swap outs internal field force	80%	80%	80%
Proportion of swap outs third party provider	20%	20%	20%
Outlier assessment			
Outlier adjustment for installer cost	1	0.8	1
Installer cost after adjustment	£100	£80	£100
Internal field force: Total cost per site visit	£110	£90	£110
Outlier adjustment for third party cost	1	1	2
Third party provider cost after adjustment	£80	£80	£80
Weights applied			
To internal field force costs	80% (0.80m)	77% (0.66m)	89% (0.80m)
To third party provider costs	20% (0.20m)	23% (0.20m)	11% (0.10m)
Weighted average cost per site visit (based on Supplier A only)			
Weighted average cost per site visit	£104	£88	£107

For Scenario 1 the weighted average cost per site visit of £104 is derived by multiplying the £110 internal field force total cost per site visit by the 80% weighting (£88), multiplying the £80 third party costs by the 20% weighting then adding the sum of the two figures (£88 + £16) together. For scenario 2 the equivalent figure of £88 (rounded up to the nearest £1) is the result of applying the 77% internal field force cost weighting to the £90 (£69.30) and the 23% weighting to the £80 third party provider costs (£18.40).

Appendix 3 – Data requirements for setting the Reimbursement Amount for 2026-2027

We are requesting data on swap out activity alongside this consultation, to inform the Reimbursement Amount for the period 1 April 2026 to 31 March 2027. This request is being made via the RFI templates issued alongside this consultation document on Ofgem's website.

All large energy suppliers should complete the "RFI – Large Energy Suppliers" template. This request will be confirmed via email from Ofgem and DESNZ. The RFI requests data on outturn costs split by cost component and internal field force and third-party providers, the number of swap outs completed, the average duration of swap outs and the number of swap outs attempted but not completed at first attempt. This data should be provided for the reporting period 1 April 2025 to 31 August 2025.

Smaller energy suppliers including non-domestic suppliers and MOPs are invited to complete the "RFI – Smaller Energy Suppliers and MOPs" template. This shortened template requests data on outturn costs split by cost component and internal field force and third-party providers, the number of swap outs completed, and the average duration of swap outs where available. This data should be provided for the reporting period 1 April 2025 to 31 August 2025.

The deadline for RFI responses is 4 November 2025.

Appendix 4 – Glossary

ASR: Annual supplier returns

Centralised Price: An alternative term for 'Reimbursement Amount'

Communications Hub: A communications hub is installed in homes and businesses to connect the DCC's secure network to smart gas and electricity meters and allow smart meters and in-home displays to connect to each other. The communications hub typically sits next to or on top of the electricity smart meter.

CPIH: Consumer prices index including occupiers' housing costs

CSP: Communications service provider

CTG: Communications Transition Group

DBCH: Dual band communications hubs

DCC: The Data Communications Company - the holder of the Smart Meter communication licence, Smart DCC Ltd. The DCC Licence was awarded under section 7AB of the Gas Act 1986, and section 5 of the Electricity Act, each allowing Smart DCC Ltd to undertake the activity of providing a Smart Meter communication service

The Department: the Department for Energy Security and Net Zero

DESNZ: Department for Energy Security and Net Zero

Domestic: A premises at which a supplier of gas or electricity (or both) is taken wholly or mainly for a domestic purpose (see Gas Supply Licence and Electricity Supply Licence standard condition 6)

MAP: Meter asset provider

MOP: Meter operator

OBR: Office for Budget Responsibility

Ofgem: Office of Gas and Electricity Markets

PRCs: Premature replacement charges

Reimbursement Amount: An alternative term for 'Centralised Price'

RFI: Request for Information

SBCH: Single band communications hubs

SEC: Smart Energy Code Administrator and Secretariat

SEC: Smart Energy Code

SECAS: Smart Energy Code Administrator and Secretariat

Smaller non-domestic sites: Business or public sector customers whose sites use low to medium amounts of electricity (Balancing and Settlement Code Profile Classes 1, 2, 3 or 4) or gas (using less than 732MWh of gas per annum)

SMETS1: Smart Metering Equipment Technical Specification version 1 (SMETS1) - any version of the Smart Metering Equipment Technical Specifications with a Principal Version of 1.

SMETS2: Smart Metering Equipment Technical Specification version 2 (SMETS2) - any version of the Smart Metering Equipment Technical Specification with a Principal Version of 2.

SMDG: Smart Metering Delivery Group

We: Ofgem and DESNZ

Appendix 5 – Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data

We plan to share all responses to this consultation, including the separate RFI on swap out activity, with DESNZ.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for six months after the closure of this project.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete

- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

10. More information

For more information on how Ofgem processes your data, click on the link to our "Ofgem privacy promise".