



Department for
Business, Energy
& Industrial Strategy

Smart Meter Targets Framework

Consultation on minimum installation
requirements for Year 3 and Year 4

Closing date: 21 March 2023



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Any enquiries regarding this publication should be sent to us at: smartmetering@beis.gov.uk

Contents

General information	5
Why we are consulting	5
Consultation details	5
How to respond	6
Confidentiality and data protection	6
Quality assurance	6
Interpretation	7
Executive Summary	8
Introduction	10
Smart metering rollout	10
Targets Framework	11
Mid-Point Review	11
Consultation proposals	12
Regulatory obligations	14
Section One: amendments to the structure of domestic and non-domestic requirements	16
The non-domestic rollout	16
Review of existing arrangements	17
Proposed changes to the structure of installation requirements in Year 3 and Year 4	18
Impact on the domestic rollout	18
Questions	19
Section Two: BEIS rollout model and tolerance levels	20
Review and updates to the BEIS rollout model	20
Components of the model	20
Questions	23
Modelling assumptions	24
Domestic Assumptions	26
Non-domestic assumptions	29
Rollout projections	32
Questions	33
Tolerance levels	33

Calculation of tolerance levels for Year 3 and Year 4 of the Framework _____	33
Value of T_y in the formula to calculate annual targets for Year 3 and Year 4 of the Framework _____	35
Impact of tolerance levels in practice _____	36
Questions _____	43
Section Three: partial extension of the ‘churn adjustment’ _____	44
Background _____	44
Key considerations _____	45
Expected variation in smart coverage of suppliers _____	45
Minded-to proposal: _____	46
Version of churn adjustment _____	47
Impact of churn adjustment on market aggregate installation requirements _____	49
Supplier of Last Resort (SoLR) _____	50
Questions _____	50
Section Four: Legal text _____	51
Questions _____	51
Impact Assessment _____	52
Summary of Questions _____	53
Next steps _____	54
Annexes _____	55

General information

Why we are consulting

The four-year smart metering Targets Framework came into effect on 1 January 2022. This Framework is designed to ensure timely delivery of the smart meter rollout by setting energy suppliers minimum annual smart meter installation targets. These targets are set on a trajectory to achieve 100% coverage, subject to an annual tolerance level that applies across industry as a percentage of each supplier's customer base. The tolerance levels for the first two years of the Framework were set in June 2021.

We are now consulting on the tolerance setting methodology and tolerance levels that will apply in Year 3 (2024) and Year 4 (2025) of the Framework.

Consultation details

Issued: 7 February 2023

Respond by: 21 March 2023

Enquiries by email only to: smartmetering@beis.gov.uk

Consultation reference: Smart Meter Targets Framework: consultation on minimum installation requirements for Year 3 and Year 4.

Territorial extent:

This consultation applies to the gas and electricity markets in Great Britain. Responsibility for energy markets in Northern Ireland lies with the Northern Ireland Executive's Department for the Economy.

How to respond

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome. We would advise you to follow the summary of consultation questions on page 53 of this document.

Where possible, we would prefer responses to be submitted online via Citizen Space; however, we will also accept responses returned via email using the address below.

Respond online at: <https://beisgovuk.citizenspace.com/sm/smart-meter-targets-framework>

or

Email to: smartmetering@beis.gov.uk.

When responding, please state whether you are responding as an individual or representing the views of an organisation.

If responding by email, please use the ‘Consultation reference’ above in the subject line.

Confidentiality and data protection

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).

If you want the information that you provide to be treated as confidential please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our [privacy policy](#).

We will summarise all responses and publish this summary on [GOV.UK](#). The summary will include a list of names or organisations that responded, but not people’s personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the government’s [consultation principles](#).

If you have any complaints about the way this consultation has been conducted, please email: beis.bru@beis.gov.uk.

Interpretation

In this document:

‘the government’ refers to the UK government;

‘we’ refers to the UK government;

‘BEIS’ or ‘the department’ refer to the Department for Business, Energy and Industrial Strategy, that has published the consultation on behalf of the UK government;

‘BEIS rollout model’ or ‘rollout model’ refer to the model developed by the Smart Metering Implementation Programme to project an estimate of the minimum number of smart meter installations that can be achieved over the course of the Targets Framework;

‘the Programme’ refers to the Smart Metering Implementation Programme, which includes the department’s Smart Metering Team and the wider group of partners and stakeholders responsible for delivering the rollout;

‘the all reasonable steps (ARS) obligation’ refers to the legal obligation on energy suppliers to take ‘all reasonable steps’ to install smart meters. This obligation initially required installations to take place by the end of 2019 and, in 2013, it was extended to the end of 2020 (‘the 2020 rollout duty’). In June 2020, due to the disruption caused by the COVID-19 pandemic, it was extended to 30 June 2021. In June 2021, it was extended by a further six months to 31 December 2021;

‘the Targets Framework’, ‘the Framework’ refer to the smart meter installation obligation which has been implemented and took effect from 1 January 2022;

‘customer-driven churn’ refers to consumers switching between energy suppliers voluntarily, as a result of the consumer’s active choice;

‘domestic’ refers to 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);

‘non-domestic’ refers to premises that are not domestic premises (see Gas Supply Licence and Electricity Supply Licence Standard Condition 6) and are within scope of the smart meter mandate, which consists of smaller sites in electricity profile classes 1-4 or with gas consumption below 732 MWh/year. These cover a range of organisations and sectors, including pubs and restaurants (hospitality), shops (retail), schools and local authority buildings (public sector). 70% of mandate sites are microbusinesses.¹

¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/920211/non-domestic-smart-metering-guidance.pdf

Executive Summary

1. Smart meters are a vital upgrade to our national energy infrastructure and underpin the cost-effective delivery of the government's commitment to achieve net zero greenhouse gas emissions by 2050.² They are a critical tool in modernising the way we all use energy and support the transformation of the retail energy market, to make it work better for energy consumers.
2. The government is committed to ensuring that households and small businesses can benefit from smart meters as soon as possible. To meet this ambition, the government confirmed in June 2020 that it would introduce a new four-year policy framework to drive smart meter installations.
3. Under this 'Targets Framework' energy suppliers are set individual annual smart meter installation targets on a trajectory to 100% coverage, subject to annual tolerance levels that apply across industry but are specific for the domestic and the non-domestic sectors. The tolerance levels for the first two years of the Framework (2022 and 2023) were confirmed in June 2021. The Framework came into effect on 1 January 2022.
4. Tolerance levels were not set for Year 3 and Year 4 (2024 and 2025) of the Framework as the government wished to ensure that the most recent data was used to set installation requirements for the final two Framework years. The government therefore confirmed that a 'mid-point review' would take place in 2023 that would consider the tolerance methodology, including the BEIS rollout model, and the latest available evidence on the progress of the rollout in order to set the tolerance levels for the second half of the Framework.
5. This consultation sets out our Mid-Point Review of this latest evidence and of the methodology and modelling approach used to set supplier minimum installation requirements under the Targets Framework. Following this review, we consider that the overarching methodology used to set tolerance levels remains appropriate and the central components of the BEIS rollout model – consumer acceptance, technical eligibility, operational fulfilment and operational capacity – remain the most accurate and reliable means of projecting the installation trajectory in 2024 and 2025.
6. In conducting this Mid-Point Review, we have identified a number of areas where we consider updates to the methodology and rollout model are needed to ensure the Targets Framework remains relevant and robust for 2024 and 2025, whilst driving the highest levels of smart meter coverage across the market by the end of 2025.
7. The first of our proposed updates is an amendment to the structure of the requirements regarding domestic and non-domestic installations. Currently, mixed portfolio suppliers (suppliers of both domestic and non-domestic premises) have a single annual installation requirement with flexibility to meet that requirement through any combination of domestic and non-domestic installations. Our assessment of rollout progress in the first part of the Framework indicates that this flexibility is contributing to a deprioritisation of the non-domestic rollout among mixed portfolio suppliers, with a disproportionate risk to the

² The UK's 2050 net zero target – the first by a major economy to be made binding in legislation – was recommended by the Committee on Climate Change, the UK's independent climate advisory body. In 2021, the government published a Net Zero Strategy, setting out policies and proposals for decarbonising all sectors of the UK economy to meet the net zero target by 2050, [Net Zero Strategy: Build Back Greener](#).

realisation of benefits for small business and public sector consumers. We are therefore bringing forward proposals to amend licence conditions so that mixed portfolio suppliers are required to meet both the domestic and non-domestic components of their annual installation requirements in Year 3 and Year 4 of the Framework.

8. Our second set of proposals relates to updates to the BEIS rollout model to incorporate the latest evidence and validate our assumptions. We have reviewed the evidence underpinning this model, including assumptions relating to consumer demand, market installation capacity and operational delivery. We propose making some updates to the data used to inform these assumptions. We are also consulting on the tolerance levels for Year 3 (2024) and Year 4 (2025) that result from this updated rollout model.
9. The third proposal relates to a partial extension of an adjustment to the formula used to set supplier targets in order to mitigate the impact of customers switching suppliers. In response to industry feedback, a modification has been applied to the calculation of installation requirements for Year 2 of the Framework (2023) to mitigate the impact of smart meter customers switching their energy supplier ('churn') during Year 1 (2022). We are now proposing that this adjustment is extended in relation to energy suppliers' non-domestic installation targets in Year 3 of the Framework. No extension is proposed in relation to domestic installation targets beyond the end of the current Year 2 adjustment.
10. The proposals in this consultation, including the proposed tolerance levels for the third and fourth years of the Framework, are intended to ensure that supplier annual installation requirements are both ambitious and achievable in order to drive the highest levels of smart coverage. Smart meters are now the default meter in Great Britain, and we remain confident that the rollout can continue to make substantial progress over the remaining years of the Framework. The requirements defined by the tolerance levels set the minimum number of installations that energy suppliers are required to deliver, but we encourage industry to go beyond this minimum to ensure that the considerable consumer and network benefits (as well as those benefits for energy suppliers themselves) from smart metering can be fully realised as soon as practicable. Government is committed to continue to work with energy suppliers to support delivery of the smart meter rollout and maximisation of the benefits of an enduring smart metering system.

Introduction

Smart metering rollout

11. Smart meters are replacing traditional gas and electricity meters in Great Britain as part of an essential infrastructure upgrade to provide a more flexible and resilient energy system fit for the 21st century. Smart meters play a critical role in modernising the way we all use energy. The ability to record half-hourly consumption and price data from smart meters is unlocking new and innovative approaches to managing demand. This includes, for example, the novel Demand Flexibility Service launched by National Grid ESO in winter 2022, and optional smart ‘time-of-use tariffs’ that reward consumers for using energy away from peak demand times. This transformation to make the energy system in Great Britain smarter and more flexible will play a critical role in the cost-effective delivery of our commitments to net zero greenhouse gas emissions by 2050, which is fundamental to the British Energy Security Strategy.³
12. Smart meters are already aiding the transformation of the retail energy market to make it work better for consumers. Prepayment customers see particular benefits from smart meters, which enable customers to top-up remotely as well as track their balance easily so they do not unknowingly run out of credit. Smart prepayment meters also make it easier to access government cost of living support. For example, the £400 Energy Bills Support Scheme discount has been applied automatically for those on smart prepay, with no need to redeem a voucher.⁴
13. The government wants as many households and small businesses across Great Britain as possible to benefit from smart metering. The government’s Net Zero Strategy, published in October 2021, outlined how smart meters are a critical enabler for delivery of a decarbonised power system by 2035 and set out our firm commitment to drive market-wide rollout.⁵ Thanks to the continued endeavours of industry, the rollout continues to make good progress. As at the end of September 2022, 54% of all meters were smart or advanced meters, with 30.3 million smart and advanced meters in homes and small businesses across Great Britain.⁶ The official statistics to the end of December 2022 will be published in March 2023.
14. Consumers are at the heart of the smart meter rollout. Smart meters are bringing an end to manual meter reads and estimated bills, enabling prepayment customers to top-up remotely without leaving home, and providing consumers with near-real time information which they can use to save energy and cut their bills. There is robust evidence from the rollout to date that consumers are achieving sustained savings using their smart meters and In-Home Displays of 3% for electricity and 2.2% for gas credit. This is particularly beneficial at a time of high global energy prices.

³ [British energy security strategy](#)

⁴ [Getting the Energy Bills Support Scheme discount](#)

⁵ [Net Zero Strategy: Build Back Greener](#). The importance of smart meters in underpinning a flexibility energy system was also recently highlighted by Chris Skidmore MP in his independent review of Net Zero, [Mission Zero: Independent Review of Net Zero](#).

⁶ [Smart meter statistics](#)

15. The Programme is also an important contributor to the national economy, supporting around 15,000 jobs across Great Britain.⁷

Targets Framework

16. In June 2020, the government confirmed a new four-year policy Framework (the 'Targets Framework') with fixed minimum annual installation targets for energy suppliers, subject to tolerance levels. This Framework built on the progress made under the previous 'all reasonable steps' (ARS) regulatory obligation that was in place from 2012 to 2021, and is intended to drive the investment and momentum needed to achieve the highest levels of smart coverage by 2025. The four-year Framework applies to all domestic and non-domestic energy suppliers and took effect from 1 January 2022.
17. The Targets Framework seeks to ensure that large numbers of consumers are not left behind without a smart meter, unable to participate in the future retail energy market and the benefits this will bring. In particular, it seeks to:
- i. deliver the highest levels of smart meter coverage as soon as possible, that ensure value for money and maintains installation quality so that consumers can derive maximum benefit and have a good experience;
 - ii. encourage consumers to benefit from the rollout of smart meters;
 - iii. normalise smart meters so they are the default meter used in Great Britain; and
 - iv. give certainty to the whole sector to invest and plan ahead over a multi-year period.
18. Under the Targets Framework energy suppliers have individual annual targets on a trajectory to 100% coverage, subject to annual tolerance levels that apply across industry but are specific for the domestic and the non-domestic sectors. Each energy supplier is recognised for the installations of smart meters (and advanced meters, where relevant) that they achieve in a given year of the new Framework. This means that annual installation requirements are assessed based on the number of installations undertaken during a specific rollout year.

Mid-Point Review

19. In June 2021, the government confirmed the tolerance levels that apply for the first two years of the Targets Framework and the methodology used to set them. We did not set tolerance levels for Year 3 (2024) and Year 4 (2025) as we wanted to ensure that we took into account the most up to date data when setting installation requirements for the final two years of the Framework. Setting the tolerance levels for the third and fourth rollout years separately and at a later stage allows us to do this. As such, we indicated that we would,

⁷ Including energy suppliers' installers, jobs in the supply chain, and national communications infrastructure providers.

during the second year of the Framework (2023), review the BEIS rollout model and underpinning assumptions in line with prevailing market conditions and the latest evidence.

20. The majority of respondents to the consultation on tolerance levels for Year 1 and Year 2 welcomed this approach and agreed with the benefits of taking account of new evidence to recalibrate the tolerance levels in the final two Framework years. We therefore confirmed in June 2021 that a 'mid-point review' would take place in 2023 and would consider the tolerance methodology including the rollout model, as well as the latest evidence of the progress of the rollout. We confirmed that the tolerance levels used to set energy supplier installation requirements in Year 3 (2024) and Year 4 (2025) of the Framework would be consulted on and set as part of this Mid-Point Review process.
21. This consultation document sets out our review of the latest evidence on the progress of the rollout and our consideration of the methodology used to set supplier minimum installation requirements and of the BEIS rollout model. It outlines and seeks feedback on a series of proposals for updates to the methodology and modelling approach to be implemented for the final two years of the Framework. It also sets out the proposed domestic and non-domestic tolerance levels to be applied in Year 3 and Year 4 of the Targets Framework.
22. The proposals detailed below are intended to enable us to project the installation trajectory towards the last year of the Framework based on robust, up-to-date evidence. This is designed to ensure that the tolerance levels for the last two years of the Framework are set as a realistic reflection of what the market can achieve whilst also maintaining the necessary ambition to complete the smart meter rollout as soon as practicable.
23. In addition, we have considered whether a modification in the calculation of installation requirements to mitigate the impact of smart meter customers switching supplier is required in the final two years of the Targets Framework. Following consultation, in May 2022 we confirmed that such a modification would apply for Year 2 of the Framework. When confirming this 'churn adjustment', we noted that the decision to introduce this modification reflected the progress of the smart meter rollout at that point and the differing levels of smart coverage between suppliers. We confirmed that we would consider whether any further adjustment was appropriate for Year 3 and Year 4 of the Framework, and, if so, what level of adjustment is required, as part of the Mid-Point Review. In accordance with this commitment, we have now considered the latest available evidence on rollout progress and levels of smart coverage. This document therefore also sets out our proposals in relation to whether to have a 'churn adjustment' in the latter part of the Framework.

Consultation proposals

24. Since the commencement of the Targets Framework on 1 January 2022, we have closely monitored installation progress. We have used the most recent data available from a range of sources, including BEIS official statistics, ElectraLink and the Data Communications Company (DCC), to gain an ongoing picture of the rate of installations across the market and by individual suppliers across the year.⁸ In addition, we have considered information provided by industry in regular quarterly and annual reporting to BEIS, alongside the

⁸ For BEIS official statistics see [Smart meter statistics](#). Statistics on the rollout of smart meters in Great Britain, covering meters operating and meters installed, are published quarterly.

intelligence gathered throughout the year on operational performance and rollout delivery through the Smart Metering Implementation Programme's regular bilateral meetings with energy suppliers. To understand levels of consumer demand, we have monitored representative data on consumer attitudes and acceptance provided by Smart Energy GB via their household Outlook tracker and Recontact Surveys, as well as two surveys of non-smart, non-domestic customers and Smart Energy GB's ongoing microbusiness tracker.⁹

25. We have used this up-to-date evidence base to test the assumptions used in the BEIS rollout model. We have also considered market-wide and individual supplier performance in the first year of the Framework, and have assessed the progress seen against the objectives of the Framework to drive greater consumer acceptance and uptake of smart meters and to reach the highest levels of coverage as soon as possible across the market.
26. Based on this assessment we are now bringing a series of proposals for the target setting methodology and rollout model to be used to define supplier installation requirements in Year 3 (2024) and Year 4 (2025) of the Targets Framework. These proposals consist of:
 - A) An amendment to the structure of requirements regarding domestic and non-domestic installations;
 - B) Updates to the rollout model to use the latest evidence and validate the robustness of our assumptions; and
 - C) A 'churn adjustment' for non-domestic installation requirements in Year 3 of the Framework only. No 'churn adjustment' for domestic installation requirements in Year 3 or Year 4 of the Framework.
27. Full details of these proposals, including the evidence considered and the reasoning supporting the proposed amendments, is described below. Also outlined is our assessment of the impact of the proposals on energy suppliers and on the market. This assessment is further developed in the supporting documents Annex A: Impact Assessment and Annex B: Analytical Evidence.
28. **Section One of this document concerns the proposed amendment to the structure of requirements regarding domestic and non-domestic installations in Year 3 (2024) and Year 4 (2025) of the Framework.** Currently, mixed portfolio energy suppliers (suppliers of both domestic and non-domestic premises) have a single annual installation requirement that reflects both the domestic and non-domestic components of their portfolio. Suppliers have the flexibility to meet this requirement through any combination of domestic and non-domestic installations. We are consulting on removing this flexibility in Year 3 and Year 4 of the Framework, so that mixed portfolio suppliers will now be required to meet both the domestic and the non-domestic components of their installation requirements. Each component will become a separately binding requirement set out in licence conditions. This proposal is made as we have seen growing evidence that mixed portfolio suppliers are deprioritising their non-domestic rollouts and that this is posing a risk to benefits realisation for small businesses and public sector consumers.

⁹ Smart Energy GB are a not-for-profit, government-backed, energy-supplier funded campaign helping everyone in Great Britain understand the importance of smart meters and their benefits to people and to the environment.

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29. **Section Two concerns our proposed updates to the BEIS rollout model. The rollout model is used to project the trajectory of smart meter installations and to set the tolerance levels that apply to energy suppliers' annual targets.** We have reviewed the evidence underpinning this model, including assumptions relating to consumer demand, technical eligibility, operational fulfilment, and market installation capacity. We propose making some updates to the model to ensure our evidence base and assumptions remain up to date and valid in the third and fourth Framework years. Section Two also sets out the proposed tolerance levels for Year 3 and Year 4 that result from this updated rollout model.
30. **Section Three details our proposal for a partial extension of the 'churn adjustment' applied to the formula used to set supplier targets.** Such an adjustment has been applied to suppliers' combined domestic and non-domestic target in Year 2. We consider that this adjustment is not required in Year 3 and Year 4 in relation to domestic consumers, as convergence in domestic suppliers' smart coverage levels has reduced the potential for unfairness to be experienced as a result of customer switching. However, we consider that given the greater variation in smart coverage between suppliers in the non-domestic sector, this potential for unfairness may remain for an additional year in relation to non-domestic installation requirements. We therefore propose to apply a 'churn adjustment' to supplier non-domestic installation requirements in Year 3 of the Framework.
31. **Section Four sets out proposed amendments to conditions 33A and 39A of Standard Licence Conditions for Gas and Electricity respectively.** These amendments are intended to implement the policy proposals outlined in Section One and Section Three.

Regulatory obligations

32. The proposals in this consultation relate to the obligation for suppliers to install smart meters in domestic and non-domestic premises (SLC33A and SLC39A for Gas and Electricity respectively).¹⁰ This is just one of several existing regulatory obligations on energy suppliers relating to smart meters. For example, suppliers must take all reasonable steps to maintain the customer's smart metering system including by establishing and not compromising the maintenance of the WAN connection. Suppliers must comply with the smart meter Installation Codes and take all reasonable steps to ensure a positive consumer experience when installing a smart meter. Suppliers must also take all reasonable steps to enrol any SMETS1 meter within 12 months of it being eligible for enrolment and replace any SMETS1 meter not enrolled by 31 December 2023 with a SMETS2 meter. Energy suppliers also have an enduring obligation to take all reasonable steps to install a smart meter when making new connections or replacing a meter. Compliance with these regulatory obligations is essential to ensuring that the significant benefits of smart meters to consumers and to the energy infrastructure in Great Britain are realised.
33. It is expected that energy suppliers will meet all their regulatory obligations and will take steps to ensure that they allocate sufficient resource and have sufficient field force to do so.
34. The current rollout installation obligation sets energy suppliers annual targets to 2025.¹¹ Government will be considering in 2023 and 2024 whether the licence conditions for smart

¹⁰ [Licences and licence conditions](#)

¹¹ The rollout installation obligation is set out in conditions 33A and 39A of Standard Licence Conditions for Gas and Electricity respectively.

metering installations require any update to ensure they remain fit for purpose beyond 2025. If we consider any update is required, proposals will follow in due course.

Section One: amendments to the structure of domestic and non-domestic requirements

The non-domestic rollout

35. The non-domestic rollout covers three million meters across a range of sectors, from retail to hospitality to public sector buildings. It accounts for 6% of meters covered by the smart meter rollout but 21% of consumer benefits (as savings possible per business/organisation are higher than per household).¹² Ensuring that the policy framework regarding the non-domestic rollout sufficiently incentivises rollout progress is therefore strategically important for the government's wider net zero and innovation objectives and for business and public sector consumers.
36. In June 2020, the government consulted on a single tolerance level covering both the domestic and non-domestic rollouts.¹³ This was on the basis that issues impacting non-domestic operational fulfilment (e.g. meter variant availability) had largely been resolved, and that the two rollouts shared similarities such as relevant expertise. However, some energy suppliers expressed concerns with this approach in their responses, citing challenges unique to the non-domestic sector (such as historic technical challenges and consumer attitudes, installation journeys specific to the non-domestic sector, and the more recent impact of COVID-19 upon businesses).
37. In June 2021, the government responded to this feedback by establishing distinct tolerance levels for the domestic and non-domestic rollouts in recognition of some of these circumstances. The non-domestic rollout projection methodology was tailored to the non-domestic sector, particularly regarding customer attitudes data and in calculating the Installation Calibration Mechanism (ICM).¹⁴ We rejected an altogether different framework for the non-domestic rollout (such as a return to an 'all reasonable steps' obligation) as we considered this would be counter to our ambition to complete the rollout as soon as practicable, would undermine our intention to deliver net zero cost effectively and would be too conservative an approach given that the non-domestic rollout had reached a pivotal moment in terms of delivery by the time the Targets Framework commenced.¹⁵
38. The resulting approach taken was that both large and small non-domestic-only energy suppliers' installation requirements are set as a straight line to 100%, minus the non-domestic tolerance level (in the same way that domestic-only energy suppliers' targets are set as a straight line to 100%, minus the domestic tolerance level). This methodology means that annual installation requirements are a function of the composition of each

¹² [Smart meter roll-out: cost-benefit analysis 2019](#)

¹³ [Smart meter policy framework post 2020](#)

¹⁴ For details see Annex C: Analytical evidence, [Smart meter policy framework post 2020: minimum annual targets and reporting thresholds for energy suppliers – government response](#)

¹⁵ With energy supplier SMETS2 strategies in place, Smart Energy GB promotional activity underway, and technical challenges (including SMETS2 polyphase meter availability in the supply chain) largely resolved.

supplier's sector-specific customer base. Mixed portfolio energy suppliers calculate their targets by applying the domestic and non-domestic tolerance levels to the respective parts of their customer base. However, under current arrangements:

- Mixed portfolio suppliers have flexibility to meet their targets through any combination of domestic and non-domestic installations;
- Large mixed portfolio suppliers must publish their domestic and non-domestic installation ambitions (and progress against such ambition at year end) but they can decide themselves how to allocate the published ambition between the two sectors; and
- Smaller mixed portfolio suppliers do not have to publish domestic and non-domestic installation ambitions.

Review of existing arrangements

39. We have monitored energy supplier progress to date using a combination of BEIS official statistics and administrative data. This evidence shows that some mixed portfolio suppliers are performing proportionately better against their overall targets than against the non-domestic 'portion' of them. Whilst we accept that there remain unique operational and customer considerations in driving uptake in the non-domestic sector (discussed more fully in Section Two), we also consider that there remains evidence of deprioritisation of the non-domestic rollout in favour of domestic installations, which do not necessarily entail the same operational considerations. For example:

- Some mixed portfolio suppliers are progressing better against their non-domestic ambitions than others;
- Some mixed portfolio suppliers have been slow to progress IT and data system platform upgrades and meter variant arrangements, impacting non-domestic ineligibility, despite other suppliers fully resolving these issues;
- Some suppliers (non-domestic only and mixed portfolio) are demonstrating greater progress against fuel-specific targets than other suppliers;
- Not all mixed portfolio energy suppliers have published a non-domestic installation ambition proportionate to the non-domestic portion of their portfolio;
- For some mixed portfolio suppliers, overall non-domestic rollout progress has remained largely static, further demonstrating the potential for progress in the domestic sector to mask limited non-domestic progress.

40. The above patterns are indicators of supplier decisions or behaviour that are limiting progress in rolling out smart meters to the non-domestic sector under the current arrangements. Therefore, we consider that without change these current arrangements pose a risk to benefits for non-domestic consumers if they are continued into the final two years of the Framework. Ultimately all small business and public sector consumers should have energy suppliers that are appropriately incentivised to offer them smart meters and the benefits they provide. This includes non-domestic customers of mixed portfolio suppliers, who should also have the same opportunities to benefit from smart meters as

customers of non-domestic only suppliers. This is particularly important in the current energy market context, where the benefits of smart meters including accurate bills and information on energy usage can help smaller non-domestic organisations to manage their costs.

Proposed changes to the structure of installation requirements in Year 3 and Year 4

41. We are proposing that for Year 3 and Year 4 of the Targets Framework, the structure of the installation requirements will be amended such that mixed portfolio suppliers must meet the installation requirements produced by applying the domestic and non-domestic tolerances separately to the number of domestic and non-domestic premises in their portfolio. This means that mixed portfolio suppliers will have two electricity targets and two gas targets (one domestic and one non-domestic for each fuel).
42. We consider that this amendment will ensure that the Targets Framework continues to fulfil its intention of driving the highest levels of smart coverage across the market, including in the non-domestic sector. Without such an amendment there is a risk that the flexibility in the current arrangements will reinforce lower prioritisation of non-domestic installations in the final two years of the Framework, with an associated risk to the coverage reached and benefits achieved by 2025.
43. As set out above, large mixed portfolio suppliers already have to publish their annual non-domestic ambitions and must report on progress against these annually and smaller mixed portfolio suppliers already have obligations to rollout smart meters in non-domestic mandate sites. These proposed amendments to the structure of minimum installation requirements should not represent a significant change to those mixed portfolio energy suppliers that are already making progress against targets proportionate to their domestic and non-domestic customer bases. For those suppliers that are not yet making this progress, the proposed policy changes are designed to incentivise proportionate prioritisation of the existing requirements. Overall, the proposed amendments to the structure of installation requirements are therefore designed to reinforce the original intent of the policy: that mixed portfolio suppliers drive forward both their domestic and non-domestic rollouts under the Framework.
44. The proposed change would require amendments to the way that current energy supplier licence conditions are drafted – these are published alongside this consultation in Annex C: Proposed Amendments to Standard Licence Conditions, for supplier feedback. The proposed changes to the structure of installation requirements would apply to all energy suppliers (not just mixed portfolio suppliers) but they would have no actual effect on domestic-only and non-domestic-only supplier obligations or the way that their targets are calculated. The proposed changes would apply to installation requirements in Year 3 and Year 4 of the Targets Framework only. Please refer to Section Four for further details.

Impact on the domestic rollout

45. We have also considered the impact on the domestic rollout of making domestic and non-domestic installation numbers separate requirements. As suppliers' installation requirements are already set on the basis of the domestic and non-domestic components of

their portfolios, and as we are not creating any materially different obligations beyond those already in place in Framework Year 1 and Year 2, we do not expect the proposed amendments to have any material impact on suppliers' ability to meet their domestic installation requirements. We are also not aware of factors which would make it more challenging for suppliers (across the market) to deliver domestic installations in comparison to non-domestic installations and this has not been a theme of previous consultation responses.

46. Given the consumer benefits of smart meters to be realised in each sector, it is strategically important that suppliers give appropriate focus to both their domestic and non-domestic rollouts. Although much less common, we are aware of some cases of suppliers advancing further in their non-domestic rollout for particular fuels than in their domestic rollout. Whilst the proposed policy change is primarily intended to ensure that suppliers do not deprioritise their non-domestic rollouts it may also benefit the domestic rollout by ensuring the reverse is also avoided.

Questions

1. Do you agree with the proposed changes to the structure of minimum installation requirements for mixed portfolio energy suppliers set out in Section One? We welcome views from all stakeholders. Please provide rationale and evidence to support your answer.
2. What do you consider to be the benefits and risks of the proposed changes to the structure of minimum installation requirements for mixed portfolio energy suppliers set out in Section One? We welcome views from all stakeholders. Please provide rationale and evidence to support your answer.

Section Two: BEIS rollout model and tolerance levels

Review and updates to the BEIS rollout model

47. The BEIS rollout model is used to project the minimum number of smart meter installations that we expect the market to achieve over the course of the Targets Framework. Tolerance levels are calculated as the difference between the market trajectory of installations to reach 100% smart coverage by 2025 and the trajectory of installations defined by the BEIS rollout model.
48. The BEIS rollout model is a detailed analysis of the minimum installation levels that we forecast to be feasible in a given future period. This model was developed and adapted in response to a series of consultations between 2019 and 2021.¹⁶ In particular, it drew on a model provided by energy suppliers during the 2019 consultation, which uses an approach based on the rates at which eligible consumers are converted to smart meters.
49. The structure of the model and the assumptions used to project installation numbers in the first two years of the Targets Framework (1 January 2022 to 31 December 2023) were set out in the Analytical Evidence Annex published alongside the government response to the consultation on minimum annual targets in June 2021.¹⁷

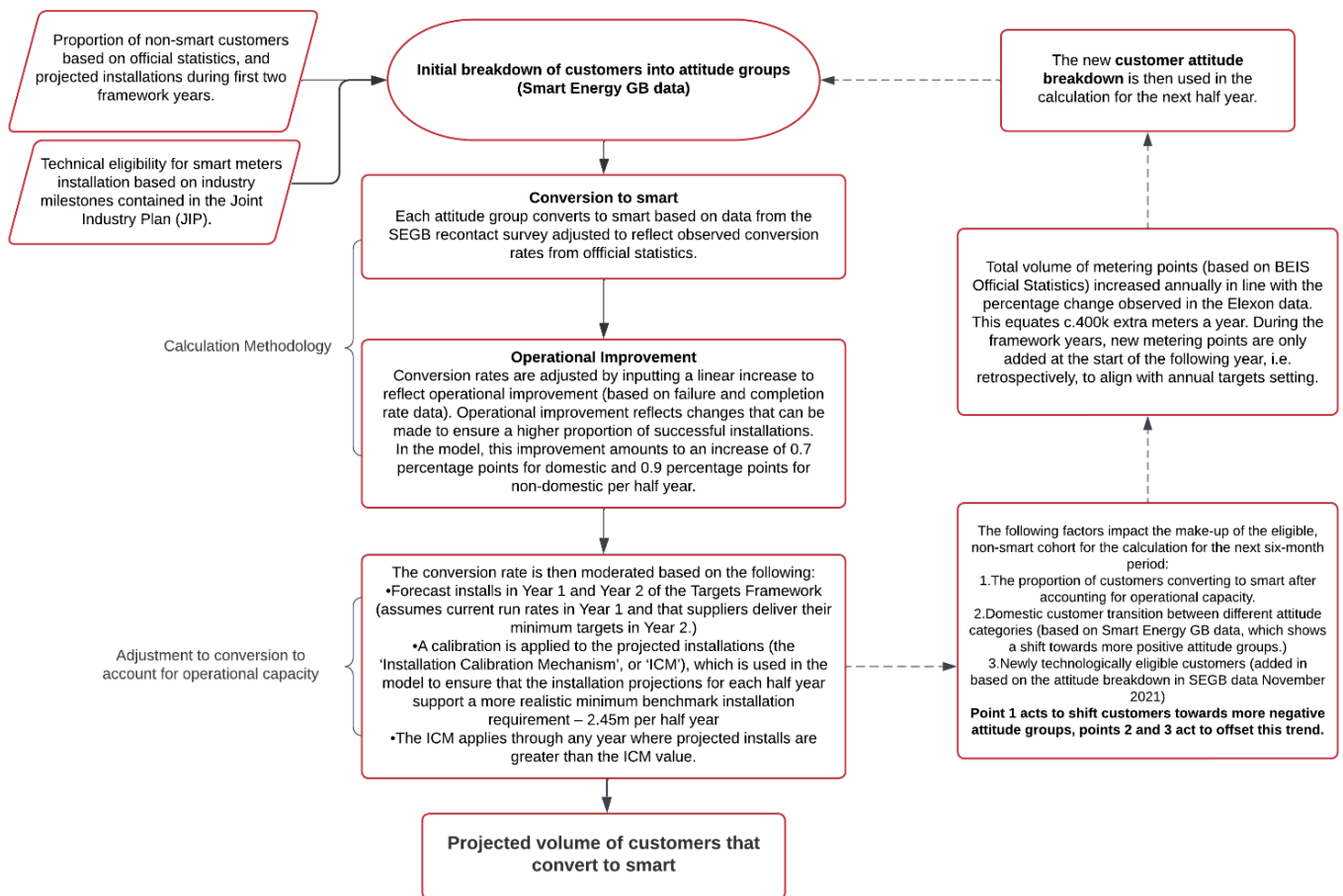
Components of the model

50. The BEIS rollout model is based on four components:
- i. **Consumer acceptance** – in order for the energy supplier to convert a given eligible customer, that consumer needs to permit an installation, with sufficient amounts of positive (or indifferent) customers needed to allow this to happen at the required scale.
 - ii. **Technical eligibility** – for a non-smart consumer in any attitude group to be converted to smart, they need to be technically eligible to receive a smart meter.
 - iii. **Operational fulfilment** – once a customer is both eligible and willing, it is then up to the energy supplier to fulfil their installation promptly and effectively, so that the opportunity is not lost.
 - iv. **Operational capacity** – the potential demand for installations calculated from (i) to (iii) is calibrated in line with an estimate of current market installation capacity.
51. **Figure 1** below provides a high-level illustration of how the rollout model works, and the main parameters that underpin our projections. Further details on the model approach can be found at Annex B: Analytical Evidence.

¹⁶ [Delivering a smart system: a Smart Meter Policy Framework post 2020](#) and [Smart meter policy framework post 2020: minimum annual targets and reporting thresholds for energy suppliers](#)

¹⁷ [Annex C: Analytical evidence](#)

Figure 1 – BEIS rollout model map



52. These four components are applied to both the domestic and non-domestic rollout projections. However, in order to ensure that our projections accurately reflect the circumstances of each sector there are several areas where the inputs to the rollout model use specific domestic and non-domestic assumptions when calculating the domestic and non-domestic projections respectively. For further details of these areas see the 'Modelling assumptions' section below. The BEIS rollout model does not distinguish between different fuel types. Rather, a single projection is produced that uses combined inputs from both gas and electricity. Energy suppliers are, however, set separate gas and electricity installation requirements by the Gas Standard Licence Conditions and Electricity Standard Licence Conditions. These separate requirements use the same target setting calculation (and tolerance level) but reflect the relevant portfolio size and composition for each supplier.

Review of modelling approach: Domestic

53. We have conducted a review of our modelling approach for the domestic sector. We consider that it remains appropriate to forecast the rollout in the third and fourth years of the Framework on the basis of the rate at which eligible consumers are converted to receive a smart meter installation. We further consider that consumer acceptance, technical eligibility, operational fulfilment and operational capacity remain the best means of taking account of the variety of drivers and constraints that will influence the rollout in 2024 and 2025.

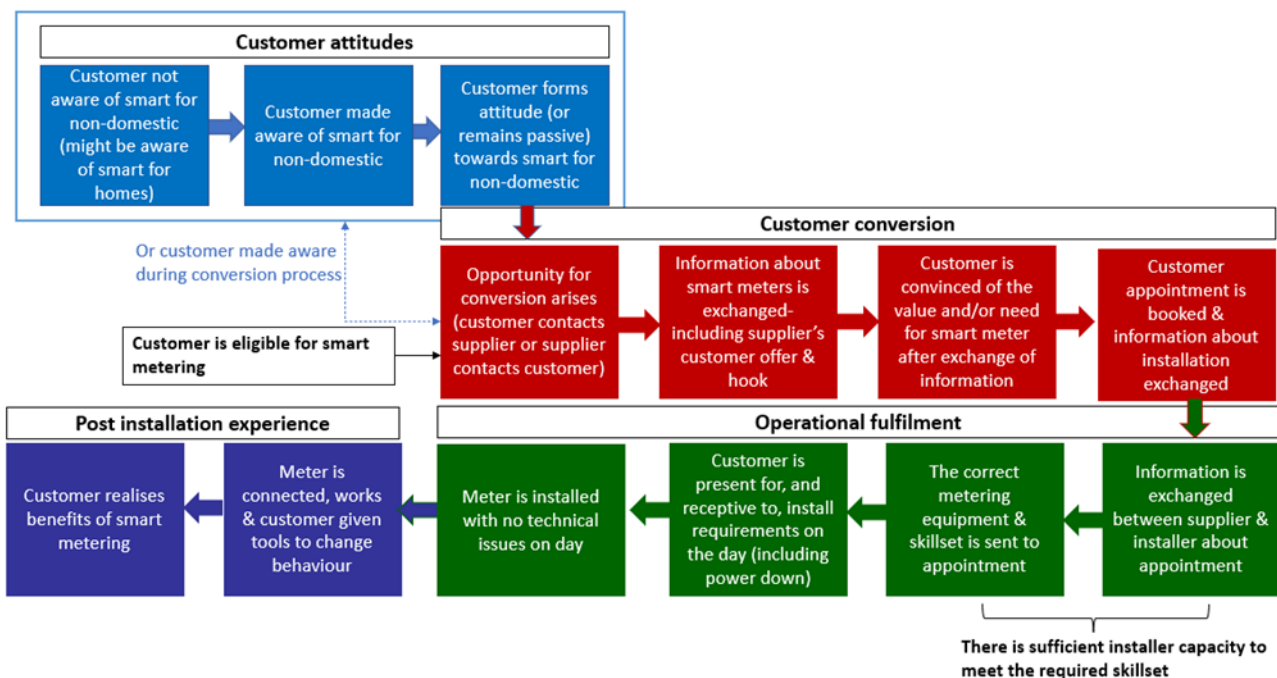
54. This is because the essential process for securing a smart meter installation, requiring consumer willingness to accept a smart meter, the eligibility of their premise to receive one, the capacity of their energy supplier to fulfil the installation and their ability to successfully

deliver the process from booking through to installation, remains the same. We have a long time series of robust data on each of these components and are able to base our assumptions on comprehensive evidence. We therefore consider that the four central components of the BEIS rollout model remain the most accurate and reliable means of projecting the domestic installation trajectory in 2024 and 2025.

Review of modelling approach: Non-domestic

55. We have also conducted a review to ensure that the fundamentals of the modelling approach remain the factors which drive the rollout in the non-domestic sector. **Figure 2** below visualises the non-domestic smart meter customer journey, i.e. the steps required for a small business (or public sector organisation) to go from prior awareness (or lack of awareness) of smart meters for non-domestic organisations through to their meter being successful installed and them benefiting from their smart meter.

Figure 2 - visualisation of non-domestic customer journey



56. Non-domestic customer attitudes are important in determining smart meter uptake; businesses/public sector sites may already be aware of smart meters for non-domestic organisations. Alternatively, they may be aware of smart meters for homes, but not aware of the relevance or the offer in a non-domestic context. As non-domestic customers are made aware of smart meters (either as part of, or independently of, the supplier conversion process), they may form positive, negative or passive attitudes towards smart meters for businesses/non-domestic organisations. Therefore, non-domestic consumer attitudes remain a core principle of the modelling approach.

57. Technical ineligibility is then relevant in determining smart meter uptake; if groups of business or public sector customers are not eligible for a smart meter then the rest of the customer journey cannot begin. Therefore, we propose continuing to account for ineligibility in the way that we model non-domestic uptake.

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58. Conversion of customers across attitude groups is also an important component of non-domestic smart meter uptake. First the consumer ‘attitude’ must be translated into a booked smart metering appointment, and this appointment must then be turned into a successful installation. We therefore consider it remains appropriate for the rollout model to continue to take into account conversion rates and scope for operational fulfilment in projecting the non-domestic installation trajectory.
59. Although hard to quantify, industry insight consistently identifies unique factors that might influence conversion in the non-domestic sector. These include challenges in securing contact with the decision maker, concerns about business power down once more is known about the installation process or concerns about landlord permission. There are also operational factors that can make non-domestic installations more complex than domestic. These include particular challenges associated with the prevalence of gas first installations (e.g. limited room on the meter board or in the meter cupboard), the need for remedial works before an installation can progress or the person on site to facilitate the installation not knowing the location of the meters.
60. We propose that such sectoral considerations can be best factored into the modelling approach via the tailoring of data and assumptions to the non-domestic sector as set out in paragraphs 87-105 and in more detail in Annex B: Analytical Evidence. In addition, there are several steps suppliers can take to mitigate the risks associated with non-domestic conversion and operational fulfilment – summarised in paragraphs 95 and 142-143 below. Such sectoral considerations do not negate the validity of customer conversion and operational fulfilment as core components of the rollout model in the non-domestic sector overall. Non-domestic installation capacity then interacts with the factors above to influence how many installations can be achieved. For example, if demand outstrips supply of installers and skillsets (including specialist skillsets required to deliver certain non-domestic installations) then it may not be possible to convert all of those with positive customer attitudes. Therefore, the model contains a tailored assessment of non-domestic installation capacity in order to model the non-domestic rollout. This ensures that non-domestic specific capacity considerations underpin projections of the non-domestic smart meter rollout.
61. Overall, having considered the range of factors most likely to affect the non-domestic smart meter rollout, we are confident that the modelling approach taken still captures these factors within it, and continues to be the most realistic and accurate way of estimating future non-domestic rollout performance.
62. Further details on the modelling approach and the proposal updates can be found at Annex B: Analytical Evidence. BEIS will disclose the model to licensed gas and electricity suppliers (and organisations representing them). Information on the disclosure arrangements is provided in Annex B. We consider that the model and main assumptions have been described in sufficient detail in this document for the benefit of other stakeholders.

Questions

- | |
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| <p>3. Do you agree that the key components of the BEIS rollout model should remain as consumer acceptance, technical eligibility, operational fulfilment and operational capacity? Please provide rationale for your answer, supported with relevant evidence.</p> |
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Modelling assumptions

Starting point

63. Another assumption central to the BEIS rollout model is the starting point for the rollout period. When calculating the starting point for Year 1 of the Framework (end December 2021), we used actual installation data from BEIS official statistics for the periods for which this was available (up to end March 2021), with some adjustment to account for small suppliers that do not submit quarterly data. We then based projections of future periods up to the start of Year 1 on a combination of supplier forecasts (adjusted to account for the observed historic difference between forecasted and realised installations) and an extrapolation from the rate of DCC installations and evidence obtained from supplier bilateral meetings and forecasts to BEIS. This proved to be an accurate means of calculating the Framework starting point. Our projected domestic smart coverage for end December 2021 was 49.2%, and for non-domestic coverage was 49.0%. BEIS official statistics show that the actual domestic smart coverage at 31 December 2021 was 50% and the non-domestic smart coverage was 49%.
64. Rollout projections for Year 3 and Year 4 need to include an assumption of the smart coverage that we expect to have reached by the end of 2023. We propose to calculate this based on the following:
- i. To estimate the smart coverage at the end of 2022 we have used meters in operation from official statistics at the end of 2021 adjusted to account for smart meters installed during 2022. We have calculated the number of smart meters installed in 2022 as the total of: reported qualifying smart meter installations¹⁸ in January – September 2022 by the large suppliers, increased to account for the estimated number of installations made by small suppliers in this period; and an estimation of the number of installations made from October – December 2022 based on the installation rate up to end of September 2022 as shown in the official statistics. This estimate and the small supplier estimate above will be replaced with official statistics on the number of smart meters operated (as of 31 December 2022) when we respond to this consultation, as this will be published during the consultation period.
 - ii. Starting from this estimated smart coverage at the end of 2022, for 2023 we assume that the projected market-wide installation requirements for that year (Year 2 of the Targets Framework) are met by all suppliers. Together, this gives us the assumed starting coverage reached by the end of 2023. In calculating the separate domestic and non-domestic starting points, for modelling purposes we assume that mixed portfolio suppliers meet their current single (combined domestic and non-domestic) installation requirement via domestic and non-domestic installations proportionate to the relevant parts of their portfolio (in essence, treating the components of the requirement

¹⁸ 'Qualifying' refers to smart meters installed to replace traditional meters or in new connections, it does not include smart for smart replacements.

generated by applying tolerance levels to domestic and non-domestic portfolios as distinct minimum installation requirements).¹⁹

65. While we do not yet have confirmation of the official statistics for 2022 installation numbers, we are aware that DCC installation data and information published to date by large suppliers on their Year 1 progress against installation requirements indicates that, while some energy suppliers have met their minimum installation requirements for gas and/or electricity, the combined Year 1 market aggregate minimum installation requirements for both gas and electricity have not been met. Nevertheless, we consider it is reasonable to assume that Year 2 installation requirements will be met by all suppliers. Meeting annual smart meter installation requirements is a condition of suppliers' licences, and we consider it is appropriate to assume that energy suppliers will perform as required to meet this obligation in Year 2 of the Framework. This is likely to require an increase in installation run rates for any suppliers that have not performed at the necessary pace to meet their requirements in Year 1. We consider that opportunities to improve performance exist that will support such an increase (see paragraphs 125-128 for further details). Our consideration of the impacts of the proposed methodology and tolerance levels for Year 3 and Year 4 on individual suppliers is set out in the 'Impact of tolerance levels in practice' section below.

Bespoke domestic and non-domestic rollout assumptions

66. Alongside our review of the components of the BEIS rollout model and starting point, we have also reviewed the evidence underpinning this model, including assumptions relating to consumer acceptance, technical eligibility, operational fulfilment and operational capacity.
67. When modelling the rollout in Year 1 (2022) and Year 2 (2023) we developed distinct domestic and non-domestic assumptions to account for the different circumstances between the two sectors. We consider that these different circumstances can be expected to continue in Year 3 (2024) and Year 4 (2025) of the Framework and it therefore remains appropriate to use bespoke modelling assumptions to project the differing installation trajectories of the two sectors. This also remains important in the context of the proposed changes to the structure of installation requirements set out in Section One above.
68. We do, however, propose making some changes to these assumptions to update the evidence base and ensure our assumptions remain relevant and robust. Such updates are also intended to ensure the installation requirements for the third and fourth rollout years are set at a level that is expected to be both ambitious and achievable. The bespoke domestic and non-domestic assumptions and proposed updates are summarised below. They are also set out in fuller detail in Annex B: Analytical Evidence.

¹⁹ We have not used large suppliers' published non-domestic ambitions for 2023 due to the limited time available following the deadline for publishing targets on 31 January 2023, and the possibility that some targets may be amended following publication. However, in Year 1 (2022) the majority of suppliers published a non-domestic ambition proportionate to the relevant parts of their portfolio, and we therefore consider this is a reasonable means of estimating the number of non-domestic installations that will take place in 2023 (whilst also ensuring consistency with the approach taken when modelling Year 1 and Year 2). We will review this assumption using the latest available evidence upon consultation response.

Domestic Assumptions

Consumer acceptance

69. Our approach to calculating consumer acceptance has been based on consumer attitudes and consumer conversion.
70. When calculating rollout projections for the first two years of the Framework, eligible non-smart customers were split into the customer attitudes of 'seek', 'accept', 'indifferent' and 'unlikely to take up' based on the categories used in Smart Energy GB's Outlook Survey.²⁰ Each of these attitude groups has a corresponding conversion rate taken from the Smart Energy GB Recontact survey, which was adjusted to reflect observed conversion rates.²¹ Over time, as the more positive attitude groups convert more quickly, the overall non-smart population may trend towards the more negative groups and, therefore, overall conversion rates were assumed to drop.
71. We only used data on consumer attitudes collected prior to COVID-19. This approach was taken to avoid the risk that unrepresentative data collected during the pandemic impacted findings.
72. Additionally, when modelling the domestic rollout, we included an 'attitude boost' to consumer attitudes from H2 2021 (July – December). This was introduced to reflect observations from the Smart Energy GB Recontact survey that suggested customers move between attitude groups and this offsets some of the reductions in the positive attitude groups.
- 73. We consider that our approach to calculating consumer acceptance remains appropriate to modelling the rollout in Year 3 and Year 4. We have, therefore, maintained this approach when preparing our projections for these years. However, to take account of the latest evidence, we have updated the data on consumer attitudes to reflect the more recent waves of the Smart Energy GB Outlook and Recontact surveys.**
74. Smart Energy GB data indicates that since modelling of the tolerance levels for Year 1 and Year 2, consumer attitudes to smart metering have, on average over the past few waves of surveys, been steadily becoming more positive. This has two consequences for the proposed modelling of the rollout in Year 3 and Year 4. The first is a change in the underlying consumer attitudes which are used as inputs at the beginning of the modelling period. The second is a change to the 'attitude boost' included in the model to capture the pace of change in consumer attitudes through time. Both of these changes to the model have the impact of increasing the smart coverage we forecast can be reached by the end of 2025. Our projections of consumer demand do not include any external developments

²⁰ Smart Energy GB's Outlook Survey is a large-scale survey of individuals carried out by Smart Energy GB every six months. Domestic consumers who do not yet have a smart meter are asked about their current attitude to getting one (Smart Energy GB's Outlook survey includes a sample of both smart meter owners and those who do not yet have a smart meter. For the purposes of our modelling we are focusing on findings for those who do not yet have a smart meter). In May 2022, there had been 16 waves of the Outlook survey, providing a timeseries of data on domestic consumer attitudes and acceptance. This data was used as the basis for our modelling of domestic consumer acceptance.

²¹ The Recontact survey indicates the proportion of domestic consumers within each of the consumer attitude categories that claim to have been successfully converted to smart during the six-month follow-up period, along with the current attitude to smart of those that weren't. This allowed us to estimate half-yearly 'conversion rates' for each attitude group.

which could affect demand, for example, awareness raising activities by HMG or changes in the policy environment aimed at further increasing demand.

Technical eligibility

75. The proportion of consumers that are technically eligible to receive a smart meter has an impact on conversion rates, as ineligible consumers cannot be converted to smart. When modelling the rollout for Year 1 and Year 2 of the Framework, we therefore adjusted the conversion rates for all attitude groups to account for technical eligibility.
76. When projecting the rollout for Year 1 and Year 2, the overall proportion of consumers whose metering points were technically eligible was expected to increase over time, due to the new availability of technical solutions such as Dual-Band Communications Hubs and the Alt-HAN solution (a technological solution for households where the components of the Home Area Network (HAN) are otherwise unable to communicate). In June 2021, we expected around 84.0% of consumers to be technically eligible during 2021, with this number rising to 99.3% in 2022.
77. We have reviewed the technical eligibility assumptions against an eligibility series derived from the industry-backed milestones in the Smart Metering Implementation Programme's Joint Industry Plan. **On this basis we consider the assumption of 99.3% technical eligibility best represents domestic market-wide technical eligibility for 2024 and 2025. Therefore, we are proposing no updates to the technical eligibility assumption when modelling the rollout in Year 3 and Year 4.**

Operational fulfilment

78. Before being used to forecast the smart metering rollout in Year 1 and Year 2, the eligibility-adjusted conversion rates were further adjusted to match observed overall conversion rates from the official statistics. This was to ensure that the model did not implicitly assume a higher level of operational fulfilment than that observed in historical data.
79. Evidence from the Smart Metering Implementation Programme's benchmarking work with large energy suppliers indicated that there were several areas in which energy suppliers could deliver improvements to operational fulfilment. We considered that such improvements would be expected to translate into increases in these conversion rates from the same volume of smart metering installation appointments. We therefore considered and included a small improvement in operational fulfilment (7%) spread over three half years between the start of the second half of 2021 and the end of the second half of 2022, based on a weighted average of information provided by energy suppliers to BEIS in bilateral meetings.
80. Since June 2021, we have updated our evidence base for what level of operational improvement is possible by domestic suppliers. This has included evidence gathered from large energy suppliers on their smart meter installation appointment outcomes. This data has indicated that fulfilment rates are improving slightly over time. However, improvement is not yet at the level expected. Furthermore, the spread in supplier performance on fulfilment indicates that this is still an area where high failure rates remain primarily as a result of supplier action and hence largely within the gift of suppliers to address. **On the basis of the trends observed in the failure and completion rates data provided to the Programme by energy suppliers, we consider there to be a clear scope for suppliers to continue to improve their operational performance. Using the evidence mentioned**

above, we have calculated metrics that reflect the scope for operational improvement. In the model, this is included as a 0.7 percentage points increase in conversion rates per half year for the domestic sector.

Operational capacity

81. In line with previous consultation stakeholder feedback that the primary constraint on the rollout is consumer demand, the BEIS rollout projections for Year 1 and Year 2 used a consumer attitude-based conversion projection to generate installation numbers for each half year period. This meant that the model projected installations based on consumer demand. The reduction in installations in 2020 (particularly Q2) caused by the COVID-19 response, alongside increases in consumer smart technical eligibility from 2021 onwards, generated a large number of 'seek/accept' consumers in the model ready to be converted to smart (as defined by Smart Energy GB's Outlook survey segments. For more details see Annex B: Analytical Evidence). If these demand projections flowed through directly to the tolerance levels without being adjusted for market installation capacity, they could have potentially generated unrealistic minimum annual installation requirements for energy suppliers.
82. To address this, we applied a calibrating mechanism to the initial installation projections generated by the consumer attitude-based conversion projection. This Installation Calibration Mechanism (ICM) applied only in situations where the consumer conversion projection predicted meter installations at a rate above levels which the market has previously demonstrated it could successfully complete. In such a scenario, the ICM – rather than the conversion projection – directly set the rollout forecast and subsequent tolerance levels from which individual energy supplier annual installation minimum requirements were calculated.
83. The ICM for Year 1 and Year 2 was calculated at the aggregate level using SMETS2 installation numbers from DCC data (using the average October 2020 installation rate extrapolated out to 6 months and adjusting for bank holiday periods) and Elexon data on SMETS1, advanced and traditional meter installations (September 2020 data, scaled up to account for gas meters). It amounted to 2.45m installations in each half year of the domestic modelling. The ICM number was validated as consistent with a number of other industry data points, including average installation numbers in previous half year periods and large energy supplier rollout forecasts submitted to BEIS.
84. When confirming the modelling approach in June 2021 we were clear that the ICM should not be viewed as a restriction on energy suppliers that can install above their minimum installation requirement if their operational capacity allows them to do so. We expected energy suppliers to increase their operational capacity over time, where needed, to meet consumer demand, including through improvement (and, in some cases, expansion) in energy suppliers' smart meter installation operations. This remains our expectation.
- 85. Our assessment of operational capacity in the domestic sector in 2024 and 2025 remains unchanged from that used to calculate Year 1 and Year 2 tolerance levels.** We have not seen evidence to suggest that the number of domestic installations possible in each 6-month period has seen either a sustained increase or decrease from the figures used to set the ICM in the first half of the Framework. We therefore propose to apply an ICM of 2.45 million domestic installations in each half year of the rollout to end 2025. This

ICM number has been validated as consistent with installation rates in the latter part of 2022.

86. This ICM is used to set the rollout forecast during the period H1 2024 (January – June). From H2 2024 – H2 2025, our rollout model predicts that consumer demand will be slightly below the level of market installation capacity and, therefore, it is the conversion projection that directly sets the rollout forecast for those periods.

Non-domestic assumptions

Customer acceptance

87. As with the domestic modelling approach, the non-domestic rollout forecast for Year 1 and Year 2 calculated consumer acceptance based on consumer attitudes and consumer conversion.
88. In relation to consumer attitudes, when calculating rollout projections for the first two years of the Framework, eligible non-smart non-domestic customers were split into the customer attitudes of 'seek', 'accept', 'indifferent' and 'unlikely' to take up based on the categories used in Smart Energy GB's Microbusiness Tracker.
89. Since then, the government has undertaken two further rounds of data collection relating to non-domestic customer attitudes, in order to review and validate our modelling assumptions. This has included two surveys with a sample size of 705 and 800 non-smart, non-domestic customers, weighted to the characteristics of the non-smart population to allow for inferences to the wider population. The surveys included microbusinesses, non-microbusinesses and public sector organisations. They explore (and demonstrate) that pre-existing awareness is not directly correlated with attitude; some unaware businesses go on to form positive attitudes to smart meters as they are made aware, whereas some of those aware already held less positive attitudes towards them.
90. The surveys show that 6 in 10 non-smart, non-domestic customers would seek/accept a smart meter if offered one in the next six months but only around a third of customers remembered being offered a smart meter to date. In addition, awareness of smart meters continues to increase and now stands at 73%. The survey also showed attitudes to smart meters and pre-existing awareness levels vary by segment; with some segments having seek/accept rates as high as 74-89%.
91. The consequence of inputting this evidence is that our rollout model shows significant consumer demand remaining in the non-domestic sector which is not yet fulfilled, and that customer attitudes do not pose a significant barrier to non-domestic smart meter uptake in Year 3 and Year 4 of the Targets Framework. This is the case, even if we assume static consumer attitudes (which in itself is arguably conservative, given that it is not unreasonable to assume that, as in the domestic sector, further normalisation of smart meters and good customer experiences should lead to improving attitudes).
92. In relation to consumer conversation, to measure conversion for Year 1 and Year 2 we used conversion data taken from the Smart Energy GB Recontact survey but calibrated to non-domestic installation rates. This assumed that 17% of non-domestic seekers are converted in a six-month period, compared to 23% of domestic. For Year 3 and Year 4 we propose to use a similar approach, using an average of Smart Energy GB domestic

conversion data, and non-domestic installation data to revise the assumption (for further details see Annex B: Analytical Evidence).²²

93. **We consider the current methodology the best way to estimate non-domestic conversion with the data available.** This is because evidence shows sufficiently similar trends between sectors to support the assumption that the extent to which consumers in the 'seek', or 'accept' attitude group are more easily converted than consumers in the 'indifferent' and 'unlikely' groups is the same. However, it is assumed that all non-domestic groups convert at a slower rate. More detail on the analytical rationale for this is set out in Annex B: Analytical Evidence.
94. In addition, calibrating conversion rates to non-domestic installation rates ensures a high degree of prudence in the assumption (e.g. by calibrating conversion in line with past installation rates we are allowing for factors which may have been caused by poor supplier customer journeys, not just non-domestic complexities that can influence conversion). We have also been additionally prudent by not applying the 'consumer attitude boost' (see paragraph 72 above, and Annex B: Analytical Evidence for further details) in calculating the non-domestic installation projection.
95. There are also a number of areas where improvements to the customer journey could overcome challenges which can make non-domestic conversion complex. For example, collecting (and maximising opportunities to collect) good data on the non-domestic customers in a supplier's portfolio, transparently communicating the need for power down, what it will entail and any reassurances sufficiently in advance of installation and supporting tenants to obtain the permission of their landlord as needed (or providing them with templates or the information they need to readily obtain it). Given these factors, it would be too conservative to assume even lower conversion rates than under the current approach. More detail on these points can be found in Annex B: Analytical Evidence.

Technical eligibility

96. We do not propose to further account for any ineligibility driven by individual supplier business decisions relating to their non-domestic rollouts. Suppliers have had adequate time since the rollout began to upgrade IT platforms or systems, procure meter variants and put in place strategies for dealing with different segments of their customer bases.
97. **Therefore, as with Year 1 and Year 2 of the Framework, we propose to continue to use the Joint Industry Plan as the basis for our non-domestic technical eligibility series, as it gives us a market-wide, industry-backed view on technical eligibility agreed by a range of partners.** This accounts for market-wide factors that are applicable to both the domestic and non-domestic sectors and that may influence technical ineligibility. As noted in paragraph 77 above, using the Joint Industry Plan produces an eligibility rate of 99.3% for Year 3 and Year 4 of the Framework, so that outstanding technical ineligibility is not a constraining factor on the non-domestic rollout at this stage.

Operational fulfilment

98. To forecast the Year 1 and Year 2 rollout, we assumed that the scope for improvements to non-domestic operational fulfilment was 7%. This was based on the benchmarking data

²² We have used an average of Recontact data since November 2017.

used for domestic rollout modelling (cited in paragraph 79 above), on the basis that the principle of scope for improvement applied across sectors.

99. For Year 3 and Year 4, as with the equivalent domestic assumption (see paragraph 80 above), we have updated our evidence base for what level of operational improvement is possible by non-domestic suppliers. **On the basis of the trends observed in the failure rates data provided to the programme by energy suppliers, we consider there to be a clear scope for suppliers to continue to improve their operational performance. Using the evidence mentioned above, we have calculated metrics that reflect the scope for operational improvement. In the model, this is included as a 0.9 percentage point increase in conversion rates per half year for the non-domestic sector.** We have also conducted detailed qualitative analysis to demonstrate the scope for improved non-domestic supplier delivery. This is discussed more within the context of deliverability in paragraphs 141-145 below.

Operational capacity

100. For Year 1 and Year 2 of the Framework, the non-domestic Installation Calibration Mechanism was calculated using the same methodology that was used to calculate the domestic ICM, as outlined in paragraph 83 above; i.e. it assessed market-wide non-domestic smart, advanced and traditional meter installations in a previous time period as an indication of the 'total' meters it is possible to install in the non-domestic sector in a six month period.
101. Following review, we consider that this methodology risks being excessively conservative for the non-domestic sector specifically in Year 3 and Year 4 of the Framework. Past installation rates in the non-domestic sector have been influenced by supplier deprioritisation of the non-domestic rollout (including deprioritisation emerging by some mixed portfolio suppliers, which in turn underpins the rationale for amending the structure of installation requirements regarding non-domestic installation numbers as per Section One) as well as other unique factors such as historic advanced meter installation levels. In addition, evidence gathered from energy suppliers in Summer 2022 about non-domestic installation capacity in the market did not suggest that current non-domestic installation levels are being impacted by concerns regarding capacity, such as the availability of specialised skillsets to deliver non-domestic installations.
102. Unlike the domestic rollout (where evidence does suggest a closer link between market-wide installation rates and overall installation capacity), there is therefore a case for approaching the non-domestic ICM in a way more tailored to the non-domestic sector.
103. **We therefore propose to update the way we calculate the ICM for the non-domestic sector in Year 3 and Year 4 of the Framework.** We propose to calculate the non-domestic ICM for these years by multiplying the average number of non-domestic installations it is possible for one installer to successfully deliver per day by an estimate of the number of Full Time Equivalent (FTE) installers available to undertake non-domestic installations. This is then multiplied by the number of working days in a six-month period. Further details of this assumption is provided in Annex B: Analytical Evidence.
104. Overall, this methodology produces an ICM of 132,000 non-domestic installations per six-month period, as opposed to 110,000 installations under the current method deployed for Year 1 and Year 2. We recognise that this assumes a small increase (22,000 installs per six months) to estimated capacity for installations specifically in the non-domestic sector.

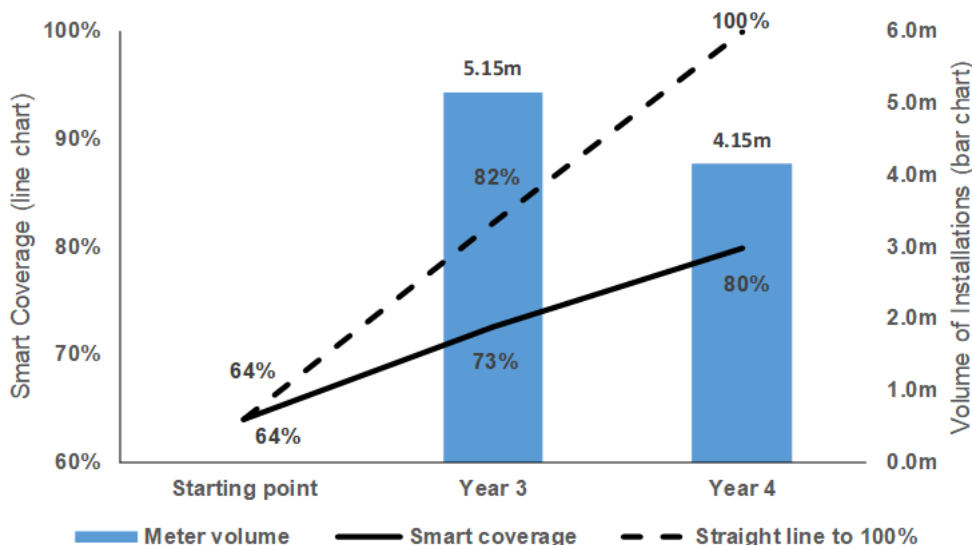
Suppliers have indicated that it is possible to commission a higher number of non-domestic installs via Meter Operators (MOPs) for the next year, providing sufficient notice is provided to put the relevant contractual arrangements in place. We are consulting on Year 3 and Year 4 targets ten months before they are due to come into effect and therefore propose that this should give industry sufficient notice to commence planning for this increase. On this basis, we also therefore assume that the additional 22,000 installations can be sourced via allocated installers without having an impact on capacity for suppliers’ domestic rollouts. We welcome stakeholder views on these assumptions.

105. It should be noted that the ICM only becomes relevant in determining supplier targets when evidence suggests that demand for installations may outstrip the market capacity to deliver them. Therefore, under the proposed new method for calculating the ICM in Year 3 and Year 4, the ICM acts to set the projected rollout level in H1 2024 (January – June). As with the domestic rollout projections, from H2 2024 – H2 2025, the conversion projection, rather than the ICM, sets the rollout projection for those periods.

Rollout projections

106. Updating the assumptions underpinning rollout projections as set out above has allowed us to project the rollout trajectory for the final two years of the Framework. **Figure 3** below shows the BEIS rollout projections based on the updated modelling approach. The outcome is presented in terms of smart meter penetration at the end of each Framework year against a trajectory to 100% at the end of the Framework. The blue bars represent the minimum smart installations projected each year based on the BEIS rollout projections, representing a reasonable minimum installation number for industry.

Figure 3: BEIS rollout projections for smart penetration, installations and target line to 100% coverage



107. As we did for the start of the Framework, we have made an assumption about the total number of metering points across the whole market (i.e. including all large, small, domestic and non-domestic suppliers.) At the beginning of Year 2 we assume a total of 56.5 million metering points across the whole market, which we then assume to increase by 400,000

meters a year. New metering points are assumed to be added at the end of each year. This is to reflect that energy suppliers' requirements will be set at the start of the Framework year and new metering points will not be reflected until the next Framework year.²³

108. Smart meters are now the default meter in Great Britain, and this is already unlocking considerable consumer and network benefits. The high levels of coverage projected to be reached by 2025 will unlock further benefits, realising the ambitions of the smart meter rollout. It is important to note however that the coverage projections set out above do not represent a cap on government ambition for the rollout. Energy suppliers can go beyond these minima, and we expect suppliers to increase their installation capacity to meet consumer demand and through continued operational improvement to provide all their eligible customers with smart meters. Government is continuing to work with energy suppliers to support delivery of the smart meter rollout and maximisation of the benefits of an enduring smart metering system.

Questions

4. Do you agree with the assumptions used to reach the *starting point* for Year 3 of the Framework in January 2024? Please provide rationale for your answer, supported with relevant evidence.
5. Do you agree that domestic and non-domestic rollout projections should continue to be calculated separately, using distinct sector-based assumptions? Please provide rationale for your answer, supported with relevant evidence.
6. Do you agree with the assumptions used to project the domestic rollout of gas and electricity smart meters in the final two years of the Framework i.e. 1 January 2024 to 31 December 2025? Please provide rationale for your answer referring to the four categories of assumptions and the different fuel types, and supported with relevant evidence.
7. Do you agree with the assumptions used to project the non-domestic rollout of gas and electricity smart meters in the final two years of the Framework i.e. 1 January 2024 to 31 December 2025? Please provide rationale for your answer referring to the four categories of assumptions and the different fuel types, and supported with relevant evidence.

Tolerance levels

Calculation of tolerance levels for Year 3 and Year 4 of the Framework

109. In June 2021, the government confirmed the approach to calculating tolerance levels for Year 1 and Year 2 of the Framework.²⁴ The tolerance level for Year 1 was calculated as the difference between the estimated industry-wide smart coverage (produced by the BEIS

²³ This new metering point estimate will be updated if required to reflect the latest official statistics when we respond to this consultation, as these statistics will be published during the consultation period.

²⁴ [Smart meter policy framework post 2020: minimum annual targets and reporting thresholds for energy suppliers – government response](#)

rollout model) and a straight line drawn from the starting point (market average smart coverage at the beginning of the Framework) to 100% at the end of the Framework. For Year 2, the line to 100% coverage was redrawn in line with the smart coverage at the end of Year 1 (based on the market aggregate minimum installation requirements for that year), with the tolerance level for Year 2 calculated against the newly drawn line.

110. This resulted in the following domestic and non-domestic tolerance levels for the first two rollout years:

Tolerance level	Year 1	Year 2
Domestic	3.5%	5.1%
Non-domestic	6.1%	8.3%

111. This approach was chosen as it ensures a consistent trajectory of the smart meter rollout, avoiding installations being pushed back towards the later years of the Framework.

112. We consider that this rationale remains relevant to the calculation of the tolerance levels in Year 3 and Year 4 of the Framework. It remains necessary to avoid the deliberate, or unintended, creation of a ‘hockey stick’ effect whereby installations are deferred to the final Framework year thereby delaying the pace of rollout and leading to challenging installation requirements for suppliers in 2025. We consider that the calculation methodology employed in Year 1 and Year 2 is the best means of ensuring that installation requirements are appropriately paced across the final two Framework years, ensuring that the rollout is delivered in a timely way and that energy supplier installation requirements remain achievable in each Framework year. This methodology means that installation numbers in the final two Framework years will be front-loaded and are expected to reduce progressively, as we continue to assume that those with more positive attitudes towards smart meters receive smart meters earlier and are thus removed from the pool of consumers still available to be converted to smart. Redrawing the line between Year 3 and Year 4 allows for the scenario where only the market-wide minimum number of installations required each year is achieved, ensuring that the tolerance level applied in Year 4 applies to the actual likely market-wide smart coverage reached, rather than that reached on a trajectory to 100%.

113. We therefore propose to calculate the tolerance level for Year 3 as the difference between the estimated industry-wide smart coverage for that year (as projected by the BEIS rollout model) and a straight line drawn from the starting point (market average smart coverage at the beginning of Framework Year 3) to 100% at the end of the 2025. For Year 4, the line to 100% coverage will be redrawn in line with the smart coverage at the end of Year 3 (based on the market aggregate minimum installation requirements for that year), with the tolerance level for Year 4 calculated against the newly drawn line.

114. Using this methodology along with the BEIS rollout model produces the smart coverage and tolerance profile for Year 3 and Year 4 as set out in **Table 1** below.

Table 1: Smart coverage and tolerance levels for Year 3 and Year 4 (domestic and non-domestic rollouts)

Rollout	Position at year end	Starting Point (December 2023)	Year 3 (December 2024)	Year 4 (December 2025)
Domestic	Target (straight line to 100%)		82.1%	100%
	Minimum smart coverage	64.7%	73.4%	80.2%
	TOLERANCE		8.7%	19.8%
Non-domestic	Target (straight line to 100%)		79.9%	100%
	Minimum smart coverage	60.1%	67.4%	73.0%
	TOLERANCE		12.5%	27.0%

115. As during the first two years of the Framework, the percentage tolerance levels will be applied to individual suppliers in each year, subtracting them from each individual supplier's line to 100% coverage to calculate their annual installation requirement. The line towards 100% will be different for each supplier as they will have different Year 3 starting points, in line with their individual progress towards rollout completion.

Value of T_y in the formula to calculate annual targets for Year 3 and Year 4 of the Framework

116. Under the Targets Framework, the calculation of an energy supplier's minimum required number of installations is based on the formula as set out in Electricity Supply Standard Licence Condition 39A and Gas Supply Standard Licence Condition 33A. Within this formula T_y means a number representing a tolerance level, which shall have the value that is determined, or calculated in accordance with a methodology specified in a document published and issued by the Secretary of State for the purposes of Conditions 39A and 33A, subject to consultation.²⁵

117. On the basis of the recommended tolerance levels in **Table 1** we propose that the calculation of T_y for Year 3 and Year 4 of the Framework should be as set out in **Table 2** below.

²⁵ [Licences and licence conditions](#)

Table 2: Value of DomT_y and DEST_y, for Year 3 and Year 4 of the Targets Framework

DOMESTIC ROLLOUT
The value of DomT _y for the Third Rollout Year (T ₃) shall be equal to 0.087*DOMMS_y
The value of DomT _y for the Fourth Rollout Year (T ₄) shall be equal to 0.198*DOMMS_y
Where:
<i>For the purposes of Standard Condition 33A of gas supply licences.</i> <i>DOMMS_y means the total number of Domestic Premises in respect of which the licensee is the Relevant Gas Supplier on the date which immediately precedes the start date of the relevant Rollout Year.</i>
<i>For the purposes of Standard Condition 39A of electricity supply licences.</i> <i>DOMMS_y means the total number of Domestic Premises in respect of which the licensee is the Relevant Electricity Supplier on the date which immediately precedes the start date of the relevant Rollout Year.</i>
NON-DOMESTIC ROLLOUT
The value of DEST _y for the Third Rollout Year (T ₃) shall be equal to 0.125*DESMS_y
The value of DEST _y for the Fourth Rollout Year (T ₄) shall be equal to 0.270*DESMS_y
Where:
<i>For the purposes of Standard Condition 33A of gas supply licences.</i> <i>DESMS_y means the total number of Designated Premises in respect of which the licensee is the Relevant Gas Supplier on the date which immediately precedes the start date of the relevant Rollout Year.</i>
<i>For the purposes of Standard Condition 39A of electricity supply licences.</i> <i>DESMS_y means the total number of Designated Premises in respect of which the licensee is the Relevant Electricity Supplier on the date which immediately precedes the start date of the relevant Rollout Year.</i>

Impact of tolerance levels in practice

Impact of tolerance proposal on different energy suppliers

118. Minimum installation requirements under the Targets Framework apply to all qualifying premises across all energy suppliers, regardless of their size, type or date of entry into the market. This approach reflects the fact that smart meters are now the default meter used in Great Britain. All customers should be included in the rollout no matter who their energy supplier happens to be, and full participation in the rollout should be a normal core part of every energy supplier's responsibilities.
119. We acknowledge that individual energy suppliers will have specific operational models and that external factors and challenges will impact them in different ways. The tolerance

levels are intended to provide some allowance for such external factors. To ensure that the proposed tolerance levels result in installation requirements that are both operationally achievable and sufficiently ambitious to drive installation progress, we have considered their impact on different types of energy suppliers. Further analysis of the impact of the proposals in this consultation is provided in Annex A: Impact Assessment.

General comments

120. The Targets Framework was introduced to drive continued progress in smart meter installations, towards a goal of the highest levels of smart coverage by the end of 2025. Tolerance levels are used to set minimum annual installation requirements that drive a timely delivery of the rollout, at a pace we consider can realistically be achieved by industry.
121. This document relates to the tolerance levels that we propose to apply in Year 3 (2024) and Year 4 (2025) of the Framework. The tolerance levels for Year 1 (2022) and Year 2 (2023) were set in June 2021 and are not here under review.
122. Minimum annual installation requirements are a binding obligation set out in licence conditions, the monitoring and enforcement of which are a matter for the regulator, Ofgem. Ofgem has made clear that a failure to achieve the binding annual installation targets will be a breach of Standard Licence Conditions and that it takes compliance with these obligations very seriously. Ofgem has further noted that where a supplier fails to achieve its installation target, it will consider enforcement action in accordance with its Enforcement Guidelines.²⁶
123. Evidence of progress against installation requirements in Year 1 shows that some energy suppliers have been successful in achieving or exceeding their Year 1 minimum requirements. However, a number of suppliers have not achieved the pace of installations necessary to meet their requirements in Year 1.
124. As set out above, we are proposing to maintain the core components of both our approach to projecting the rollout and the methodology for setting tolerance levels when setting minimum installation requirements in Year 3 and Year 4 of the Framework. We do not consider that underperformance by suppliers in Year 1 of the Framework negates the validity of either of these approaches.
125. When proposing the approach to setting tolerance levels in November 2020, we noted that some energy suppliers would need to improve upon their past performance to be able to deliver the proposed minimum requirements but that there were actions that suppliers could take to materially mitigate this.²⁷ For example, investing in and improving operational performance and increasing their installer capacity so it was more proportionate to their customer bases and level of smart penetration. We also noted that there were operational improvements in end-to-end fulfilment, where there was margin for significant enhancements by all energy suppliers.
126. Evidence from reporting to BEIS and from our bilateral meetings with suppliers suggests a strong correlation between suppliers that are making improvements in their operational fulfilment and consumer engagement and those that have performed best against their installation requirements. On this basis, we consider that opportunities to improve performance were available to suppliers in Year 1 of the Framework and that these actions,

²⁶ [Letter to suppliers: Approach to non-compliance with Smart Metering Post-2020 installation obligations](#)

²⁷ [Smart meter policy framework post 2020: minimum targets and reporting thresholds for energy suppliers.](#)

if implemented, would have supported suppliers to meet the installation requirements defined by our tolerance levels methodology in that year.

127. We therefore consider that the approach to projecting the rollout and tolerance methodology remain appropriate for setting the minimum number of installations that industry can be expected to achieve, if suppliers take such mitigation actions as set out above and discussed in more detail below. As for the first two years of the rollout, the proposed tolerance levels for Year 3 and Year 4 set ambitious installation requirements that will drive rollout progress so that homes and small businesses can benefit from smart meters as soon as possible. At the same time, they define requirements that evidence suggests can realistically be achieved by energy suppliers delivering sustained good and operationally efficient performance.
128. In the non-domestic sector, whilst we consider that the proposed target setting methodology is the most robust way to set installation requirements in legislation in Year 3 and Year 4, we do consider that suppliers are capable of exceeding their requirements if the market is proactive. In particular, the non-domestic energy market by its nature entails much commercial flexibility for suppliers and there are a range of levers they can trial and enact themselves to drive smart meter uptake. Some suppliers are already maximising this flexibility, for example through their approach to contracts and marketing. As set out in this document, there is also evidence of unfulfilled non-domestic consumer demand and scope for improvements to operational fulfilment. When combined, we propose these factors make the level of non-domestic ambition proposed through legislation the minimum achievable.

Domestic requirements - large energy suppliers

129. We have conducted analysis of the projected supplier-specific installation requirements in Year 3 and Year 4, based on the proposed domestic tolerance levels. This analysis suggests that in order to meet their installation requirements in Year 3 and Year 4, some large energy suppliers will need to improve considerably from the domestic installation rates that they have achieved in the first year of the Framework (2022). This is particularly pronounced in relation to gas installation requirements, as progress of the gas rollout in Year 1 has been slower than that of electricity.
130. While the proposed tolerance levels would require an increase in run rates from 2022 levels of performance, the scale of the projected requirements is not beyond the level of installations that large suppliers have achieved historically. For the majority of the largest 12 energy suppliers, their domestic installation requirements over the final two years of the Framework are fewer than the total number of installations they have previously achieved (against installation volumes from 2018 - 2020). In addition, our analysis suggests that in relation to electricity installation requirements, by the fourth Framework year the majority of large suppliers will be able to install at a level below their Year 1 run rate and still meet their domestic installation requirements.
131. Based on the comparative performance outcomes we observe, we consider that there remains more that many suppliers can and should be doing to materially improve their performance and deliver against their domestic installation requirements under the Framework.
132. With respect to customer engagement, as noted in paragraph 74 above, Smart Energy GB Outlook and Recontact surveys have shown consumer attitudes to have been, on

average over the past few waves, steadily improving. Observations made by energy suppliers as part of our regular bilateral engagement supports this conclusion, and suggests that positive customer demand represents an opportunity for energy suppliers to secure installations. We acknowledge that there has been reduced switching in the market as a result of high energy prices in 2022. While this has reduced the potential for campaigning to new customers, we are aware of good practice from suppliers in mitigating this risk, for example by better mining of inbound contact channels and use of more assumptive messaging during campaigning. In addition, the high energy prices in the market in 2022 have resulted in a greater focus on energy use among consumers and energy efficiency/affordability experts, which has created increased customer interest in smart meters.

133. In addition, Smart Energy GB and the Smart Metering Implementation Programme supported a Local Consumer Engagement Pilot in Derby in Autumn 2021 and this demonstrated the opportunities for co-ordinated consumer engagement and fulfilment activities that can further help suppliers to achieve installations. Building on that experience, Smart Energy GB developed further co-ordinated activities with some energy suppliers based on door-to-door activity in Autumn 2022. BEIS and Smart Energy GB will continue to engage with suppliers to share information and best practice for using such engagement, particularly in lower coverage areas, to maximise installations.
134. In relation to operational delivery, as set out in paragraphs 125-126 above, further improvement in operational fulfilment is possible. We have engaged consistently with industry through 2022 on what more can and should be done to improve delivery. This includes by reducing installer-led cancellations, optimising 'keep warm' customer engagement to reduce customer cancellations, increasing the number of failed jobs that are rebooked, maintaining focus on reducing failed installations and using and incorporating the best practice from the Programme's Operational Fulfilment Maturity Model. Government is continuing to work with energy suppliers to share good practice on operational fulfilment, including providing insights on performance and opportunities for improvement identified through evidence gathering on appointment outcomes. We also consider that there remains more that energy suppliers and their delivery partners should be doing to recruit and train new installers, and to ensure that this increased installation capacity is matched to areas of high consumer demand.
135. We expect domestic gas installation requirements in Year 3 and Year 4 in particular to require ongoing improvements from most large suppliers. We consider it reasonable to expect such improvement given that many of the issues that have contributed to the smart coverage gap are being solved with technical solutions, for example full availability of Dual Band Communications Hubs and 868MHz gas meters, and the use of a 'hot-shoe' system supporting a SMETS2 gas-only install. Therefore, we expect gas installation rates to scale up over the course of the remainder of the Framework. In addition, as smart coverage in dual fuel premises and electric-only installations continue to grow, suppliers will be able to focus to a greater degree on gas-only installations. Government will continue to engage with energy suppliers to share insight on best practice for gas installations and we encourage industry to work collaboratively to seek solutions to issues relating to single-fuel gas installations. More broadly we believe there is scope for further action that can be taken by energy suppliers potentially working in conjunction with Smart Energy GB to help support customers choosing to take their energy services from two different energy suppliers to support smart meter installations.

Domestic requirements - small energy suppliers

136. In the first two years of the Targets Framework, the same tolerance levels have applied to all energy suppliers, with each supplier receiving an annual installation requirement in proportion to the size of their portfolio and their level of smart coverage. We propose to maintain the same approach for the third and fourth Framework years.
137. The Impact Assessment for the June 2021 decision on Year 1 and Year 2 tolerance levels concluded that no additional regulatory mitigation was required to prevent disproportionate impact on small and micro businesses.²⁸ Principally, this is because under the Targets Framework minimum installation requirements are set as a proportion of a supplier's overall consumer base. The obligation on each supplier is therefore commensurate to its size. Smaller energy suppliers are required to install a smaller number of smart meters. This remains the case in the third and fourth Framework years.
138. Since the confirmation of the Targets Framework in June 2021, the number of small suppliers in the market has reduced significantly. At end of 2021 small suppliers accounted for just 1% of domestic meters being operated in the market. This is down from 6% of domestic meters in 2020. While the structure of the retail energy market has changed markedly since June 2021, evidence since commencement of the Targets Framework on 1 January 2022 does not suggest that any change to our approach in relation to small suppliers is required. Estimates calculated using data from the DCC, ElectraLink and Xoserve on installation progress in 2022, suggest there had been no materially different pattern of progress between large and small suppliers during the first year of the Framework.
139. We have not seen any new evidence since the commencement of the Targets Framework to suggest that the conclusions made in the June 2021 Impact Assessment were inaccurate, or that they underestimated the burden placed on small energy suppliers.
140. On this basis and considering evidence on installation rates in the first year of the Framework, we consider that small energy suppliers should be able meet the domestic installation rates required in the final two years of the Framework.

Non-domestic requirements - large energy suppliers

141. We have also conducted analysis of the projected supplier-specific installation requirements in Year 3 and Year 4, based on the proposed non-domestic tolerance levels. This broadly shows that most large suppliers will need to improve on their current non-domestic run rates to comply with likely Year 3 and Year 4 requirements (with some exceptions). This is in large part a result of supplier performance against their installation requirements in the first year of the Framework.
142. We consider there is scope for improvement by large non-domestic energy suppliers in their operational delivery. For instance, completion rates (measured as a percentage of booked appointments that result in successful installation) have remained static on average over time. We have also assessed supplier progress against a range of delivery criteria important for driving uptake. Key conclusions are that whilst there is evidence of best

²⁸ [Smart Meter Policy Framework Post 2020: Government response to a consultation on minimum annual targets and reporting thresholds for energy suppliers - Impact Assessment](#)

practice in nearly all areas of delivery, supplier performance is inconsistent and individual suppliers have strengths and weaknesses across each of the criteria.

143. Further, we believe that the rate of progress that we have seen to date reflects a low-prioritisation of non-domestic installations by some suppliers, particularly in relation to non-domestic gas installations. Single fuel SMETS2 gas installations in the non-domestic sector can entail additional complexities, for example lack of space on the meter board for a 'hot-shoe' or no spare neutral terminal on the cut-out linked to a 'hot-shoe'. Several suppliers have already taken steps to improve their gas operational fulfilment outcomes, including by upskilling non-domestic installers to address complexities associated with 'hot-shoes' and polyphase metering. We consider that if all suppliers were to adopt best practice and take a more consistent and comprehensive approach to non-domestic installation fulfilment this would improve delivery against their installation requirements. As set out in paragraph 135 above, we expect recent technical solutions, such as Dual Band Communications Hubs and the use of a 'hot-shoe' system, to support a scale up of gas installation rates and we will continue to engage with industry to share best practice relating to gas installations in both the domestic and non-domestic sectors.
144. On this basis, we consider that large energy suppliers should be able to make the necessary increases to their non-domestic installation rates to meet their requirements in the final two years of the Framework. We also do not consider past installation rates in the non-domestic sector to be indicative of what is possible to deliver, given the scope for additional prioritisation of the non-domestic rollout and improvement across a range of delivery areas relevant to the non-domestic customer journey.

Non-domestic requirements - small energy suppliers

145. Analysis of projected non-domestic installation requirements in Year 3 and Year 4 suggests that smaller suppliers, when considered together, will be able to reduce their installation rates in Year 3 and Year 4 compared with the rates they have achieved in 2022. We would therefore expect this group of suppliers to be able to meet, and exceed, their minimum installations requirements in the latter half of the Framework. The performance of this group of suppliers also reinforces our considerations in relation to larger suppliers, as it demonstrates that with effective business strategies, factors unique to driving non-domestic uptake can be successfully addressed.

Impact on Consumers

146. During the initial consultation process for the Targets Framework, some respondents raised concerns regarding the impact that the Framework may have on energy consumers, particularly those in vulnerable circumstances. Concerns were raised that fixed targets may lead to a poorer consumer experience, or that some consumer segments would be more likely to be 'left behind' as energy suppliers prioritised meeting their installation requirements.
147. We are confident that smart meters bring significant benefits for all consumers, improving consumer experience and empowering them to take control of their energy use. Appropriate consumer protection safeguards are in place, recognising that some consumers may have particular needs during the installation process, or require additional support. In particular, energy suppliers are required to comply with a regulated Smart Meter Installation Schedule. This schedule is designed to ensure that consumers have a positive installation experience, including by requiring energy suppliers to offer tailored energy

efficiency guidance and meet the needs of vulnerable consumers. There are extra protections in place for vulnerable consumers and, in addition, Smart Energy GB has a specific objective to assist vulnerable, prepayment and low-income consumers in realising the benefits of smart metering. Since the commencement of the Targets Framework on 1 January 2022, we have seen no evidence to suggest that the Framework has resulted in a more negative consumer experience for any group.

148. We do not yet have comprehensive data capturing changes to smart meter ownership among vulnerable consumers under the Targets Framework. However, our assessment of the data that is available suggests no evidence of vulnerable consumers being left behind by the rollout. Neither does evidence suggest that such consumers are being disadvantaged by the rollout itself. BEIS has commissioned research on benefits experienced by consumers who might experience barriers to realising benefits from smart metering. This found that a range of benefits exists for such consumers, including passive benefits such as convenience and peace of mind, as well as active benefits, such as better awareness of energy use and costs and control over energy consumption and costs. The research found that, while this customer group may experience some detriments from smart meters, any negative experiences were outweighed by the benefits, and were usually experienced alongside them.²⁹
149. The smart prepayment rollout too is making good progress. Figures at end 2021 showed 13% of all smart meters were in prepayment mode, broadly in line with the overall levels of prepayment meters in the market. Quarterly figures reported to BEIS by large suppliers in 2022 show that progress in the installation of smart prepayment meters has continued under the Targets Framework.
150. We will continue to monitor progress in the rollout among consumer groups and are committed to delivering the highest levels of smart coverage across Great Britain. We consider that the proposed tolerance levels for Year 3 and Year 4 of the Framework will continue to motivate energy suppliers to engage their entire customer base to secure smart meter installations, ensuring as many homes and small businesses as possible are able to realise the benefits of smart meters.

Potential impact of market features on the tolerance proposal

The impact of the default tariff cap

151. The default tariff cap was introduced in 2019 to protect domestic consumers on default tariffs from excessive pricing from energy suppliers. Ofgem is responsible for setting the level of the default tariff cap and for its administration. The tariff cap applies to standard variable and default rates charged to domestic customers. When setting the level of the cap, Ofgem must have regard to the need to ensure that energy suppliers who operate efficiently are able to finance their regulated activities.
152. Smart metering is a key component of an energy supplier's business and the level of the cap is set according to a calculation that includes an assessment of the efficient net costs to energy suppliers of rolling out smart meters.
153. Ofgem has recently consulted on proposals to indefinitely pause annual reviews of the Smart Metering Net Cost Change (SMNCC) allowances in the cap for credit and

²⁹ [Research into maximising the benefits of smart metering for consumers: qualitative research with smart meter consumers](#)

prepayment meters, but to keep the values reflective of current data by making annual updates to a pre-defined list of inputs used in the modelling of smart metering costs. This will include an updated rollout profile to reflect the latest actual installation numbers and any new or updated target or tolerance values.³⁰

154. We consider that this proposed approach will continue to enable all suppliers to recover sufficient revenue to reflect the costs of meeting their minimum installation requirements in Year 3 and Year 4 of the Framework, provided the supplier is efficient.

155. In November 2022, the Chancellor confirmed that bill payers will be protected by the government's Energy Price Guarantee until April 2024. The default tariff price cap remains in place while the Energy Price Guarantee is in effect, but the price cap level is not what a typical household will pay for their energy. Amendments to the Domestic Gas and Electricity (Tariff Cap) Act 2018 made by the Energy Price Act 2022 now means that the price cap will continue until such time that the Secretary of State gives notice that the tariff cap conditions are to cease to have effect.

Questions

<p>8. Do you agree with continuing to use the BEIS rollout projections as the basis for calculating tolerance levels for Year 3 and Year 4 of the Framework? Please provide rationale for your answer, supported with relevant evidence.</p>
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³⁰ [Price cap – November 2022 consultation on approach to reviewing the SMNCC allowances](#)

Section Three: partial extension of the ‘churn adjustment’

Background

156. In response to industry feedback, in June 2021 the government committed to consult on proposals for a modification in the calculation of installation requirements for Year 2 of the Framework (2023) to mitigate the impact of smart meter customers switching their energy supplier (‘churn’) during Year 1 (2022). In committing to consult on proposals for a modification, the government recognised the challenge that customer-driven smart churn may have represented for energy suppliers that are more advanced in their rollout. Under the Targets Framework, a supplier cannot meet their installation requirements by simply gaining smart meter customers. However, the original methodology for calculating minimum installation requirements, by not mitigating the impact of churn in smart meter customers while there remained considerable variation in smart coverage between suppliers, could have potentially resulted in unfair penalisation of energy suppliers that were furthest ahead in their smart meter rollout, as they may have been more likely to lose smart customers than gain them.
157. In November 2021, the government consulted on an adjustment to mitigate the impact of customer-driven smart churn on energy suppliers’ minimum installation requirements for the second year of the Targets Framework. This consultation proposed to introduce a ‘churn adjustment’ into the formula used to calculate supplier targets in Year 2 of the Framework.
158. In May 2022 we confirmed the implementation of this adjustment, which takes the form of a modification in the calculation of installation requirements for Year 2 of the new Framework (2023) to mitigate the impact of smart meter customers switching their energy supplier during the previous year (2022).³¹ This modification defined supplier installation requirements for Year 2 of the Targets Framework as the minimum of: i) their targets with the churn adjustment applied; and ii) their targets without the churn adjustment applied.
159. This adjustment for Year 2 of the Framework was implemented in order to prevent the potential unfairness that could arise for suppliers who are ahead of market average smart coverage. Suppliers who are ahead of market average smart coverage will, all other things being equal, be more likely to lose rather than gain smart meter customers through churn. This is because while these energy suppliers are likely to lose smart meter customers in proportion to their smart coverage levels, they will likely only regain them at the market average (i.e. a lower) smart coverage rate. The reverse is true in relation to traditional meter customers. Suppliers ahead of market average will be more likely to gain a larger proportion of traditional meter customers than they lose through churn. A net gain of traditional meter customers will then lead to higher installation requirements in the subsequent rollout year.
160. When confirming the adjustment to apply to the calculation used to set energy supplier installation requirements, we noted that the adjustment would apply for Year 2 of the

³¹ [Smart meter targets framework: government response to a consultation on a churn adjustment](#)

Targets Framework only and should set no expectations about future arrangements for Year 3 (2024) and Year 4 (2025) of the Framework. The decision to introduce an adjustment reflected the progress of the smart meter rollout at that point and the differing levels of smart coverage between suppliers. As the rollout progresses and market average smart coverage increases, we would expect the need for an adjustment to mitigate the impact of churn to diminish. This is because a higher proportion of customers will have smart meters and differences in smart coverage between suppliers is likely to reduce. We confirmed that we would consider whether any churn adjustment was appropriate for Year 3 and Year 4 of the Framework, and, if so, what level of adjustment is required, as part of the Mid-Point Review.

161. In making the churn adjustment for Year 2, it was our intention to make an intervention that was time limited and proportionate. Customer-driven churn is the reflection of a dynamic energy market that encourages consumers to shop around for the best deal and energy suppliers have influence over the proportion of smart metering customers that they lose or gain through customer-driven churn. It was the intention of the churn adjustment to mitigate a potential unfairness that may develop as a result of churn occurring in Year 1 of the Framework. It was not the intention of the churn adjustment to eliminate the whole impact of churn for energy suppliers.

Key considerations

Expected variation in smart coverage of suppliers

162. Our proposed approach to a churn adjustment in Year 3 and Year 4 of the Framework is shaped by consideration of the expected variation in the smart coverage of energy suppliers beyond Year 1. As noted above, the churn adjustment was considered necessary in Year 2 due to the potential unfairness for suppliers ahead of market average as a result of customer churn. The lower the levels of variation in smart coverage, the smaller the potential unfairness that could arise for suppliers who are ahead of market average (and thus more likely to lose rather than gain smart meters as a result of churn).

163. For clarity, the current Year 2 churn adjustment adjusts for churn that has taken place in Year 1 (2022). A churn adjustment in Year 3 would adjust for churn that has taken place in Year 2 (2023), and a churn adjustment in Year 4 (2025), would adjust for churn in Year 3 (2024). Therefore, the key reference years for the following analysis are 2023 and 2024.

164. Variation in smart coverage between suppliers has changed over time. Using data reported to BEIS by large energy suppliers, we have forecast the level of divergence in smart coverage that we expect to remain at the end of Year 2 of the Framework for domestic and non-domestic suppliers.³² These projections demonstrate that we expect divergence in the domestic sector to be substantially reduced by the end of Year 2, with considerable convergence around the market average smart coverage by this time. The projections suggest that in the non-domestic sector, there will still be considerable variation between the smart coverage levels of individual suppliers, with a higher level of divergence

³² These projections have assumed that suppliers meet their installation licence obligations in Year 2 of the Framework and do not choose to exceed them.

remaining at the end of Year 2. For further details of our projections, see Annex B: Analytical Evidence.

165. Across both sectors, we expect convergence around the market average to continue over time. This expectation is based on how the Targets Framework is structured. Suppliers' installation requirements derive from the number of traditional customers remaining in their portfolio that need to be converted to smart (less tolerance levels applied to each supplier's portfolio). Consequently, suppliers who have lower smart coverage have a steeper trajectory (with higher installation requirements) each year. The effect of this is to increase the pace of installations required by suppliers farthest behind. In this way, the Targets Framework can be expected to bring suppliers into convergence over time.
166. To assess the likely impact of this process as the Framework progresses, we have also projected the expected smart coverage of individual suppliers in the domestic and non-domestic sectors at the end of Year 3. The results of this analysis support the conclusion that by that time further convergence will have taken place, with substantially reduced variation between suppliers now also expected in the non-domestic sector. Further details are set out in Annex B: Analytical Evidence.
167. We recognise that movements of significant volumes of customers, for example via acquisition activity, the Supplier of Last Resort (SoLR) process, or customer-driven churn could affect this pattern. However, we would not expect it to prevent it overall. Such movements of customers will shape suppliers' installation requirements either in-year (via acquisition activity) or in the following year (via SoLR or churn), which will bring them back towards convergence in smart coverage. In addition, as smart coverage increases across the market, it will become less likely that any supplier will gain disproportionate numbers of traditional meter customers through any means.

Minded-to proposal:

168. Our minded-to proposal reflects the considerations above, particularly the variation in smart coverage between suppliers and the impact this has on the extent of the unfairness that may result from customer switching. Given the different levels of variation in coverage of the domestic and non-domestic sectors (outlined in paragraph 164 above and in Annex B: Analytical Evidence), we propose distinct treatment for each sector.
169. For non-domestic targets, we propose a partial extension of the Year 2 churn adjustment into Year 3. This is because our projections show that the variation in smart coverage for non-domestic suppliers may be expected to remain at such a level that unfairness for suppliers further ahead of market average smart coverage could result from customer switching. As outlined at paragraph 165 above, the Targets Framework is pro-convergence and we project close convergence by the end of Year 3 for non-domestic suppliers. For this reason, we consider that the justification for an adjustment will no longer apply in Year 4. We therefore propose extending the adjustment in relation to non-domestic targets into Year 3 only and not beyond.
170. For the domestic sector, we see high levels of convergence at an earlier stage. We therefore consider that the potential for unfairness that could arise for suppliers who are ahead of market average smart coverage has, over the course of Year 2 (2023), reduced to

the extent that it is no longer material. We are therefore not proposing to extend the current churn adjustment in relation to domestic installation requirements into Year 3 and Year 4.

Version of churn adjustment

171. In proposing a partial extension of the churn adjustment in relation to non-domestic targets in Year 3, we have considered what form this adjustment should take.
172. The original consultation on a churn adjustment proposed implementing an adjustment via adding a new variable (a 'churn adjustment parameter') to the installation requirement setting formula.³³ This approach would have had the intended effect of mitigating the impact of a supplier experiencing a net loss of smart meter customers (i.e. they lose more smart meter customers than they gain). However, this method would have resulted in suppliers who experience a net gain of smart meter customers through churn (i.e. they gain more smart meter customers than they lose) having higher installation requirements in Year 2 than they would otherwise have expected. Respondents to the consultation highlighted a potential risk that this second effect might have disincentivised suppliers from seeking to gain smart customers.
173. There remain wider commercial incentives and benefits to suppliers from serving customers with smart meters. However, we accepted that increasing supplier targets as a result of a net gain in smart meter customers may create a risk of a perverse incentive for suppliers to seek to avoid gaining customers that already have a smart meter. We agreed that such an outcome should be avoided in the interests of consumers and of the smart meter rollout. Additionally, it would have been contrary to the intentions of the churn adjustment for any supplier's installation requirements to be inflated disproportionately or to be made technically or practically unachievable. Ultimately, we therefore amended the methodology to define supplier installation requirements for Year 2 of the Targets Framework as the minimum of: i) their targets with the churn adjustment applied; and ii) their targets without the churn adjustment applied. This method provides an adjustment for churn, without increasing installation requirements for any supplier.
174. A variant on the original option included in the November 2021 consultation, would have only partially adjusted for churn (by adjusting the value of the churn adjustment parameter to 0.5.) We decided against this option as it would not fully meet the policy intention to mitigate the impact of churn and prevent potential unfairness, as churn would still affect installation requirements for suppliers experiencing a net loss of smart meter customers in the following rollout year. This partial adjustment, while it would spread the impact of churn more evenly across industry, would also present similar difficulties in terms of increasing targets for those gaining smart meter customers.
175. For this consultation, we considered whether an alternative form of churn adjustment from that applied in Year 2 was necessary. Neither of the options previously considered, the churn adjustment without a minimum function, nor the partial adjustment, are in our view viable. The churn adjustment without a minimum function would still entail the risks set out above and would be inappropriate on those grounds. Similarly, the partial adjustment would still not fully achieve the policy intention of mitigating the impact of churn and preventing potential unfairness. Further, the method of churn adjustment applied in Year 2 has the benefit of having been in use by suppliers already at the start of 2023 without issue.

³³ [Smart meter targets framework: churn adjustment - consultation](#)

Therefore, on balance, we judge that the rationale for the Year 2 churn adjustment based on the May 2022 consultation response still stands and we propose it forms the basis of the calculation of Year 3 non-domestic targets.³⁴

176. We therefore propose that energy supplier’s non-domestic targets in Year 3 will be defined as the minimum of: i) their targets with the churn adjustment applied; and ii) their targets without the churn adjustment applied.

177. The effect of this proposal would be that an adjustment is applied to an energy supplier’s non-domestic installation requirement for Year 3 of the Framework (2024), to account for churn in non-domestic customers that has occurred in Year 2 (2023). It will not adjust for churn that was experienced by that supplier in Year 1 (2022), as this will have already been adjusted for in that supplier’s Year 2 installation requirement.

178. The formula used to implement the proposed adjustment will be based on that currently set out in Electricity Supply Standard Licence Condition 39A and Gas Supply Standard Licence Condition 33A and will be as follows:

N_3 = The minimum of:

$$(a) \quad N_3 = \left(\frac{1}{2} (DESTMS_3 - (DESS_2 + DESNQ_2)) \right) - DEST_3; \text{ and}$$

$$(b) \quad N_3 = \left(\frac{1}{2} DESRSMS_3 \right) - DEST_3$$

Definitions of the terms used in this formula are set out below.

Term	Definition
N_3	Means the <u>non-domestic</u> minimum installation requirement for the Third Rollout Year (2024)
$DESRMS_3$	Means the number of Qualifying Relevant Designated (i.e. non-domestic) Premises ³⁵ at the beginning of the Third Rollout Year (2024)
$DEST_3$	Means a number representing representing a non-domestic tolerance level for the Third Rollout Year (2024), which has the value that is determined, or calculated in accordance with a methodology specified in a document published and issued by the Secretary of State for the purposes of Conditions 33A and 39A, following a consultation with all holders of Gas and Electricity Supply Licences.

³⁴ [Smart meter targets framework: churn adjustment](#)

³⁵ Qualifying Relevant Designated Premises are Designated Premises in respect of which the licensee is the Relevant Gas or Electricity Supplier and at which there is installed neither: (a) a Smart Metering System; nor (b) an Advanced Meter installed in accordance with licence conditions. [Energy supply licence conditions](#).

DESTMS ₃	Means the total number of Designated Premises (smart and non-smart) supplied by a supplier at the start of the Third Rollout Year (2024)
DESS ₂	Means the number of Designated Premises with a Qualifying Metering System (i.e. a Smart Meter or Advanced Meter) that are the responsibility of the supplier at the start of the Second Rollout Year (2023).
DESNQ ₂	Means the number of Qualifying Relevant Designated Premises at which a supplier has installed a Qualifying Metering System (i.e. Smart Meter or Advanced Meter) during the Second Rollout Year.

179. This formula will be included as part of the amended licence conditions used to implement the amendments to the structure of installation requirements set out in Section One. For details of proposed changes to licence conditions see Section Four below and Annex C: Proposed Amendments to Standard Licence Conditions.

Impact of churn adjustment on market aggregate installation requirements

180. The effect of the ‘minimum’ function included within the Year 2 churn adjustment is to reduce market aggregate installation requirements in proportion to the volume of churn that is adjusted for. This has the impact of potentially slowing rollout pace, with the consequence of delaying the realisation of the benefits of smart meters.³⁶ We considered that the churn adjustment was nevertheless justified for Year 2 of the Framework on the basis of minimising the potentially adverse impact of customer switching for some suppliers, and thereby ensuring the robustness of the Targets Framework.

181. Given this impact, in considering whether to extend the adjustment beyond Year 2 of the Framework the benefit of a churn adjustment for suppliers must be weighed against the overall policy objective of the Targets Framework to deliver the highest levels of smart meter coverage as soon as possible. If the risk of a potentially adverse impact as a result of customer switching has reduced so as to no longer be material, then it follows that it would be disproportionate to extend the adjustment. We consider this to be the case in relation to the domestic sector beyond the Year 2 churn adjustment, and this has informed our decision not to apply a churn adjustment to domestic installation requirements in Year 3 and Year 4.

182. To assess the likely impact of the proposed partial extension of the churn adjustment to non-domestic installation requirements in Year 3, we calculated possible impacts based on historic minimum and high churn levels within the non-domestic sector. These are not projections of trends in churn but indicate the scale of potential impact on market aggregate installation requirements. Details of this analysis is included within the Annex B: Analytical Evidence.

183. This analysis shows that, while we would expect the proposed partial extension of the churn adjustment to have an impact on the Year 3 targets of suppliers experiencing

³⁶ For details, see [Impact Assessment \(for the targets framework churn adjustment\)](#)

negative smart churn in non-domestic consumers in Year 2, we would expect the impact on overall market aggregate installation requirements to be limited. As such, we believe that the partial extension of the adjustment is not a risk to the benefits case for the third and fourth years of the Framework. Further details are set out in Annex B: Analytical Evidence. We therefore consider that a partial extension of the churn adjustment to apply to non-domestic installation requirements in Year 3 of the Framework is justified to ensure that installation requirements remain fair and appropriate.

Supplier of Last Resort (SoLR)

184. In response to the November 2021 consultation on a churn adjustment, several respondents raised concerns about customers gained via the Supplier of Last Resort process in 2021 on supplier targets in 2022. In particular, it was noted that that SoLR had affected normal churn patterns and that this had penalised suppliers inheriting portfolios with a low smart penetration. Several suppliers argued that an adjustment should be made the calculation used to set targets to exclude customers gained by the SoLR process late in the year. We considered these suggestions when considering the policy response on the churn adjustment. However, we were not persuaded that SoLR events towards the end of 2021 had made Year 1 installation requirements unachievable for any supplier. While gaining a large number of customers through SoLR late in the year may require more adaptation than business-as-usual portfolio change, we considered that energy suppliers should take steps during the year to adapt their installation delivery plans to meet their requirements and that it remained reasonable to expect them to do so.
185. We propose that this previous conclusion remains appropriate for Year 3 and Year 4 of the Framework. We have not seen a further wave of SoLR events at the scale seen at the end of 2021. In addition, in the context of very low levels of customer switching as a result of the circumstances in the retail energy market, the Supplier of Last Resort process has provided suppliers with new customers that they can campaign to in order to secure new installations. We have seen evidence to suggest that some suppliers whose portfolios were impacted by material gains of Supplier of Last Resort customers have been able to perform well against their installation requirements.

Questions

9. Do you agree with our assessment that no churn adjustment is required for domestic installation requirements in Year 3, and that no churn adjustment is required in relation to any installation requirements in Year 4?
10. Do you agree with our proposed approach for adjusting for churn in relation to non-domestic installation requirements in Year 3?

Section Four: Legal text

186. Implementation of the proposals in Section One and Section Three above will require amendments to conditions 33A and 39A of Standard Licence Conditions for Gas and Electricity respectively. Annex C: Proposed Amendments to Standard Licence Conditions sets out our proposed amendments to the Standard Licence Conditions for Gas and Electricity in order to implement the policy proposals outlined in this consultation.

Questions

11. Do you agree that the legal drafting in Annex C implements the policy intentions proposed in Section One and Section Three of this document? Please provide rationale for your answer.

Impact Assessment

187. An impact assessment for the policy proposals set out in this consultation have been included at Annex A: Impact Assessment. The results suggest that the policy will deliver a net benefit to Great Britain of £1.4bn over an appraisal period to 2034, compared to a counterfactual where only the New and Replacement Obligation applies.³⁷ This assessment is based on the assumption that energy suppliers deliver rollout rates in line with our projections between 1 January 2024 and 31 December 2025 and makes no assumptions about any enduring policy frameworks beyond the end of the Targets Framework other than those already in place.
188. The impact assessment uses the cost and benefits from the Smart Metering Implementation Programme 2019 Cost Benefit Analysis³⁸ (with some inputs updated to reflect newly available evidence and changes to the Green Book guidance on appraisal).³⁹ It compares the overall cost and benefit of two scenarios: a counterfactual where smart meters are installed in adherence only with the New and Replacement Obligation and a policy scenario where smart meters are installed according to installation requirements under the Targets Framework (with the proposals set out in Sections One – Four above implemented). As more smart meters are installed under the policy scenario than the counterfactual, and each smart meter installation delivers a net benefit to Great Britain, the policy scenario results in a net benefit overall.

³⁷ The New and Replacement Obligation requires energy suppliers to take all reasonable steps to install a compliant smart metering system where a meter is replaced or installed for the first time.

³⁸ [Smart meter rollout: cost benefit analysis, September 2019](#)

³⁹ [The Green Book: appraisal and evaluation in central government](#)

Summary of Questions

1. Do you agree with the proposed changes to the structure of minimum installation requirements for mixed portfolio energy suppliers set out in Section One? We welcome views from all stakeholders. Please provide rationale and evidence to support your answer.
2. What do you consider to be the benefits and risks of the proposed changes to the structure of minimum installation requirements for mixed portfolio energy suppliers set out in Section One? We welcome views from all stakeholders. Please provide rationale and evidence to support your answer.
3. Do you agree that the key components of the BEIS rollout model should remain as consumer acceptance, technical eligibility, operational fulfilment and operational capacity? Please provide rationale for your answer, supported with relevant evidence.
4. Do you agree with the assumptions used to reach the *starting point* for Year 3 of the Framework in January 2024? Please provide rationale for your answer, supported with relevant evidence.
5. Do you agree that domestic and non-domestic rollout projections should continue to be calculated separately, using distinct sector-based assumptions? Please provide rationale for your answer, supported with relevant evidence.
6. Do you agree with the assumptions used to project the domestic rollout of gas and electricity smart meters in the final two years of the Framework i.e. 1 January 2024 to 31 December 2025? Please provide rationale for your answer referring to the four categories of assumptions and the different fuel types, and supported with relevant evidence.
7. Do you agree with the assumptions used to project the non-domestic rollout of gas and electricity smart meters in the final two years of the Framework i.e. 1 January 2024 to 31 December 2025? Please provide rationale for your answer referring to the four categories of assumptions and the different fuel types, and supported with relevant evidence.
8. Do you agree with continuing to use the BEIS rollout projections as the basis for calculating tolerance levels for Year 3 and Year 4 of the Framework? Please provide rationale for your answer, supported with relevant evidence.
9. Do you agree with our assessment that no churn adjustment is required for domestic installation requirements in Year 3, and that no churn adjustment is required in relation to any installation requirements in Year 4?
10. Do you agree with our proposed approach for adjusting for churn in relation to non-domestic installation requirements in Year 3?
11. Do you agree that the legal drafting in Annex C implements the policy intentions proposed in Section One and Section Three of this document? Please provide rationale for your answer.

Next steps

189. Stakeholders and other interested parties are invited to provide their views on the government's proposed approach and, more specifically, the questions set out above.
190. This consultation closes at **23:45 on 21 March 2023**. Details on how to respond to this consultation have been provided in the General Information section of this document.
191. Once the consultation closes, we will consider all responses before publishing the government response in due course. The government response will be published to provide sufficient notice to energy suppliers of their minimum installation requirements for Framework Year 3 (2024).

Annexes

Annex A: Impact Assessment

Annex B: Analytical Evidence

Annex C: Proposed Amendments to Electricity Supply Standard Licence Condition 39A and Gas Supply Standard Licence Condition 33A

This consultation is available from: www.gov.uk/beis

If you need a version of this document in a more accessible format, please email alt.formats@beis.gov.uk. Please tell us what format you need. It will help us if you say what assistive technology you use.