Department for Energy Security & Net Zero

Smart Meter Targets Framework:

Government response to a consultation on minimum installation requirements for Year 3 (2024) and Year 4 (2025)

July 2023

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Interpretation

In this document:

‘the government’ refers to the UK government;

‘we’ refers to the UK government;

‘the department’ refers to the Department for Energy Security & Net Zero, that has published the consultation on behalf of the UK government;

‘rollout model’ refers 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)[1];

‘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.[2]

[1] Ofgem, Licences and licence conditions
[2] Non-domestic smart metering policy guidance and Q&A (October 2019)

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. 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 and to drive smart meter installations, the government introduced a new four-year 'Targets Framework' on 1 January 2022. Under this 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.

3. The tolerance levels for the first two years of the Framework (2022 and 2023) were confirmed in June 2021. Tolerance levels were not set for Year 3 (2024) and Year 4 (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 our 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.[3]

4. The February 2023 consultation set 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 proposed that the overarching methodology used to set tolerance levels remained appropriate and the central components of our rollout model remained the most accurate and reliable means of projecting the installation trajectory in Year 3 (2024) and Year 4 (2025). However, we identified a number of areas where we considered updates to the methodology and rollout model were needed to ensure the Targets Framework remains robust for Year 3 (2024) and Year 4 (2025), whilst driving the highest levels of smart meter coverage across the market. The consultation outlined and sought feedback on these updates.

[3] Since publication of the consultation, machinery of government changes have been applied to the former Department for Business, Energy and Industrial Strategy. The Smart Metering Implementation Programme is now the responsibility of the Department for Energy Security & Net Zero. As a result, what was previously referred to as the 'BEIS rollout model' is now referred to as the 'rollout model'. We use 'BEIS rollout model' when quoting directly from the consultation that was published in February 2023.

Government decisions

5. We received 18 responses to the February 2023 consultation from a range of stakeholders, including energy suppliers, trade bodies and delivery partners. We thank them all for their invaluable feedback and the supporting information they provided.

6. The large majority of respondents to the consultation were in agreement with the benefits of smart metering and the importance of delivering the rollout to domestic and non-domestic consumers. However, respondents were also concerned that the proposed installation requirements for Year 3 (2024) and Year 4 (2025) set a level of ambition beyond what industry would be able to achieve in the latter part of the Framework.

7. We share the view that in order to be effective the requirements under the Targets Framework must be deliverable across the market and across all Framework years. When we consulted, we considered that the installation requirements that we proposed were an ambitious, yet realistic measure of what industry could deliver, based on the evidence available to us at that time. However, we remain committed to engaging with industry to deliver the rollout and have carefully considered the evidence presented to us in response to the February 2023 consultation. Consequently, we have made a number of amendments to our proposals to reflect suggestions made by respondents to the consultation. This has the result of lowering the minimum market-wide smart coverage we project to reach by 2025 to 74.1%. This level of coverage will continue to further unlock the considerable consumer and network benefits of smart metering, and is in line with what several respondents to the consultation told us they or the market could realistically achieve under the current overall policy framework for the rollout.

8. As noted in the consultation, the minimum coverage projections used to calculate tolerance levels do not represent a cap on government ambition for the rollout. We continue to 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. We consider there remains considerable scope for further operational improvement by all suppliers, especially those with poorer completion rates. We expect industry to continue to make progress in operational delivery throughout the second half of the Framework and the government will continue to support this by sharing evidence and best practice.

9. The decisions set out in this document reflect the responses received to the consultation, as well as the government's commitment to ensuring that the right incentives are in place to reach market-wide rollout of smart meters as soon as possible. The key decisions are as follows:

   I. The structure of installation requirements in the second half of the Framework will be amended so that mixed portfolio suppliers will be set separate domestic and non-domestic installation requirements.

II. The Programme will continue to use consumer acceptance, technical eligibility, operational fulfilment and installation capacity as the four main drivers of the rollout model. However, we will make amendments to the assumptions used to project the domestic and non-domestic rollouts to reflect feedback received to the consultation. These amendments have the effect of reducing the projected minimum smart metering coverage in Year 3 (2024) and Year 4 (2025) in both the domestic and non-domestic sectors.

III. We will continue to calculate tolerance levels for Year 3 (2024) and Year 4 (2025) as the difference between a market-wide trajectory to 100% smart coverage and our rollout projections. Domestic and non-domestic rollout projections will continue to be calculated separately, using distinct sector-based assumptions. As a result of the amendments made to the rollout modelling, the tolerance levels for Year 3 (2024) and Year 4 (2025) are higher than those proposed in the consultation. The value of the tolerance levels will be as follows:

Domestic: Year 3 (2024) = 11.7%; Year 4 (2025) = 25.5%

Non-Domestic: Year 3 (2024) = 14.9.%; Year 4 (2025) = 31.3%

IV. We will implement two adjustments to supplier licence conditions to mitigate the impact of the additional complexities associated with some gas smart meter installations. One amendment will introduce an additional weighting for installations that require the installation of a SMETS2 gas meter at a premise where the supplier is not the electricity supplier, and where there is not already a SMETS2 communications hub on site, so that they will count as equivalent to 1.5 installations in calculating progress towards targets. The other will align two parts of licence conditions (the New and Replacement Obligation and the Targets Framework), such that advanced meters installed in microbusinesses[4] will count towards meeting non-domestic installation requirements if all reasonable steps have first been taken to install a SMETS2 meter but this failed due to technical reasons. These amendments will ensure that customers who choose to contract with separate suppliers for each fuel type equally benefit from smart metering and will support a positive non-domestic customer outcome where there are technical barriers to installing SMETS meters.

V. If exceptional market-wide events or trends were to occur and be sustained that have a significant and negative market-wide impact on the rollout, the government will consider whether to carry out a review of the tolerance levels, which could include consulting on adjustments to the tolerance levels for Year 3 (2024) and/or Year 4 (2025) of the Framework.

VI. A ‘churn adjustment’ will be applied to the formula used to calculate non-domestic installation targets in Year 3 (2024) of the Targets Framework only. No churn adjustment will be applied to the formula used to set non-domestic installation targets in Year 4 (2025). No churn adjustment will be applied to the formula used to set domestic installation targets in Year 3 (2024) or Year 4 (2025).

[4] Or in non-microbusinesses that initially chose SMETS2

VII. We intend to consult in Summer 2023 on a new requirement for recipients of the Energy Company Obligation Scheme (phase 4) and the Great British Insulation Scheme (formerly Eco+) to request a smart meter installation. Additionally, we will shortly consult on new guidance within the Future Homes Standard building regulations to ensure that new homes are smart meter ready from the outset. We are also working to develop new consumer-facing branding for energy suppliers to provide consumers reassurance that having a smart meter will not preclude them from accessing the best value tariffs. Furthermore, we are launching a call for evidence regarding a potential requirement for installing a smart meter in cases of energy theft.

Introduction

10. 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.[5]

11. Smart meters are already aiding the transformation of the retail energy market to make it work better for consumers. Smart meters are bringing an end to manual meter reads and estimated bills, 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.[6] 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, such as the £400 Energy Bill Support Scheme discount that was applied automatically for those on smart prepayment during Winter 22/23.

12. The government wants as many households and small businesses across Great Britain as possible to benefit from smart metering, and the rollout continues to make good progress. As at the end of March 2023, 57% of all meters were smart or advanced meters, with 32.4 million smart and advanced meters in homes and small businesses across Great Britain.

Policy context

13. 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

[5] British energy security strategy (April 2022)

[6] Smart Metering Implementation Programme: a report on progress of the realisation of smart meter consumer benefits (September 2019). An independent review of energy supplier evidence on impacts of smart metering on domestic energy consumption by the Behaviour Insights Team found that the savings may even be higher than these estimates. The report, published in June 2023, combined seven studies from four suppliers (representing almost 200,000 smart meter customers) and found the impact of smart meters on energy consumption reductions to be between 3.3% to 3.6% for electricity and between 2.9% to 3.1% for gas consumption. Impacts of smart metering rollout on household energy use (June 2023).

tolerance levels. This new 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.

14. 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) in premises that do not already have a smart meter (Qualifying Relevant Premises) 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.

15. The Targets Framework was introduced to maintain the momentum of the smart meter rollout after the end of the previous ARS obligation and to achieve the government's aim to reach the highest levels of smart meter coverage as soon as possible. High levels of smart coverage are required to help maximise the benefits of half hourly settlement and to create a flexible energy system, thus enabling the effective delivery of net zero by 2050. In September 2019, the Programme published its most recent cost-benefit analysis which outlined that the Programme would continue to deliver significant benefits for households and small businesses in Great Britain, with a total Net Present Value (NPV) of £6 billion over the appraisal period.[7] Given our net zero commitment and the significant benefits of the Programme to energy consumers and the energy system more broadly, it is a government priority to deliver high levels of smart meter coverage as soon as practicable.

16. In June 2021, the government confirmed the tolerance levels that apply for the first two years (2022 and 2023) 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. 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 also be consulted on and confirmed in 2023.

17. Following the commencement of the Targets Framework on 1 January 2022, we have closely monitored installation progress using the most recent data available from a range of sources. We have also considered information provided by industry in regular quarterly and annual reporting to the department, alongside the intelligence gathered throughout the year on operational performance and rollout delivery through the Smart Metering Implementation

[7] Smart meter roll-out: cost-benefit analysis 2019 (September 2019)

Programme's regular bilateral meetings with energy suppliers. To understand levels of consumer demand, we monitored representative data on consumer attitudes and acceptance provided by Smart Energy GB, as well as surveying non-smart, non-domestic customers.[8] We used this up-to-date evidence base to test the assumptions used in the rollout model.

Consultation proposals

18. The consultation published in February 2023 set 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. Based on this review, it proposed the domestic and non-domestic tolerance levels to be applied in Year 3 (2024) and Year 4 (2025) of the Targets Framework.

19. The consultation document also outlined and sought 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. The proposals were intended to enable us to project the installation trajectory towards the last year of the Framework based on up-to-date evidence and to ensure that the tolerance levels for the final two years of the Framework were a realistic reflection of what the market could achieve, whilst maintaining the necessary ambition to complete the smart meter rollout as soon as practicable. These proposals consisted of:

- **An amendment to the structure of requirements regarding domestic and non-domestic installations**: In Year 1 (2022) and Year 2 (2023), mixed portfolio energy suppliers (suppliers of both domestic and non-domestic premises) have had a single annual installation requirement (for electricity and gas separately) that reflects both the domestic and non-domestic components of their portfolio. Suppliers have had the flexibility to meet this requirement through any combination of domestic and non-domestic installations. We consulted on removing this flexibility in Year 3 (2024) and Year 4 (2025), so that each component will become a separately binding requirement set out in licence conditions. Under this new arrangement, mixed portfolio suppliers would be required to meet both the domestic and the non-domestic components of their installation requirements. This proposal was made as we had seen growing evidence of slower progress in the non-domestic rollout by mixed portfolio suppliers, which was posing a risk to benefits realisation for small businesses and public sector consumers.
- **Updates to the rollout model to use the latest evidence and validate the robustness of our assumptions**: 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. Prior to consultation, we reviewed the evidence underpinning this model,

[8] Smart Energy GB is the independent, not-for profit organisation funded by energy suppliers that is responsible for the national public engagement campaign for the rollout of smart meters in Great Britain.

including assumptions relating to consumer demand, technical eligibility, operational fulfilment, and market installation capacity. We consulted on updates to the model to ensure our evidence base and assumptions remain up to date and valid in the third and fourth Framework years.

- **A 'churn adjustment' for non-domestic installation requirements in Year 3 (2024) of the Framework only. No 'churn adjustment' for domestic installation requirements in Year 3 (2024) or Year 4 (2025) of the Framework:** The churn adjustment has been applied to suppliers' combined domestic and non-domestic target in Year 2 to mitigate the potential for unfairness for suppliers ahead of market average smart coverage as a result of customer switching. We considered that the adjustment was not required in Year 3 (2024) or Year 4 (2025) 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. We proposed that this adjustment would apply to non-domestic installation requirements in Year 3 (2024) of the Framework but not in Year 4, as we considered that convergence in that sector will reach a level in the latter part of the Framework where no further adjustment would be needed.

20. Since publication of the consultation, the National Audit Office (NAO) has published their update report on the rollout of smart meters.[9] As the NAO has recognised, the government has overseen important progress on the rollout of smart meters since 2018 and is collaborating well with stakeholders to identify and realise benefits of the rollout. Industry is making use of smart meters to provide benefits to the energy sector and power system overall. The recommendations made in the NAO report are being considered separately from this consultation.

Policy interventions

21. As part of their responses, the majority of respondents requested various policy interventions from the government to increase consumer demand for smart metering. Although out of scope of this consultation, we have reviewed these proposals carefully. Importantly, our projections of consumer demand as set out in our original proposals and in this response do not rely on the introduction of any policy interventions. Additionally, there remains more that energy suppliers can reasonably do to generate demand for smart meters (see our response to Question 3), and to consistently fulfil existing demand. However, we are pleased to share with industry a number of areas where the government will be offering additional support for consumer demand generation. The positive impact of these measures has not been factored into our demand projections. In addition to the measures described here, the government will continue to consider other ways in which government policy can support the rollout.

[9] National Audit Office, Update on the rollout of smart meters (June 2023)

22. **We intend to consult in Summer 2023 on a new requirement for recipients of the Energy Company Obligation scheme (phase 4) and the Great British Insulation Scheme (formerly Eco+) to request a smart meter installation.** Currently, these schemes require that consumers receive advice regarding smart metering. Now, to maximise the benefits to consumers from these schemes, we intend to go further, and consult on proposals to require that if a household does not already have smart meters, that they must request an installation of them from their energy supplier(s). This would be a condition of receiving the valuable services provided by these schemes. These schemes are estimated to reach over 450,000 households (approximately 810,000 metering points) over 2024 and 2025.

23. **We are working to develop new consumer-facing branding for energy suppliers** to provide consumers reassurance that having a smart meter will not preclude them from accessing the best value tariffs. This would be available to suppliers who guarantee that having a smart meter does not in itself prevent their customers (domestic and microbusiness) from accessing those best value tariffs. As informed by our consumer research, this measure is intended to allay concerns held by some consumers that they may lose out on their supplier's best tariffs if they upgrade to a smart meter. We will share further details of this initiative with energy suppliers in Autumn 2023. Additionally, as global energy markets stabilise, we expect greater competition between suppliers than we have seen in recent years – and it is promising that we are already seeing fixed tariffs return to the domestic market. We would encourage suppliers to make full use of this opportunity to deploy new smart-contingent tariffs and/or related incentives to encourage smart meter uptake.

24. **We will shortly consult on new guidance alongside the Future Homes Standard building regulations to ensure that new homes are built smart meter ready from the outset.** Currently, a smart meter is fitted at the vast majority of new connections. However, we are aware that in a minority of cases, traditional meters are installed instead. We have taken on board energy supplier feedback that some of these cases are due to barriers created by the design of buildings. For example, a lack of space to install smart meters, meter point placement within a home, or metallic obstructions. The new guidance, drafted with significant input from developers and some energy suppliers, will further develop our existing guidance (published in 2020) to provide clear, visual guidelines for designers and builders. We would welcome energy supplier feedback to the consultation.

25. **We are launching a call for evidence on a potential requirement to install smart meters in cases of energy theft in domestic and non-domestic premises.** A trade body and three energy suppliers proposed a requirement for the installation of smart meters when energy theft has occurred. The latest evidence suggests that theft volumes are low. However, we would be interested to learn more from energy suppliers as to what meters are most typically fitted when a meter requires replacement owing to energy theft and the reasons for this. The specific questions and details of our call for evidence will be shared with suppliers separately.

26. **We would encourage energy suppliers to levy a cost-reflective charge if a consumer (domestic or non-domestic) refuses a smart meter at the point of end-of-life replacement.** We consider that the imposition of a charge is reasonable in these circumstances and reflects the increasing costs energy suppliers face for providing non-standard (i.e. non-smart) metering services. We are aware of at least one energy supplier who already charges in this way. Overall, the number of traditional meters installed to replace meters at the end of their certification periods has declined substantially in recent years from almost 80,000 in 2019, to less than 7,000 in 2022. We would encourage energy suppliers to use their existing ability to charge to reduce this number further.

27. **In the non-domestic sector, we will engage with energy suppliers to develop industry best practice sharing principles regarding smart meter-contingent contracts.** Ofgem are aware of these plans and are interested in this area. They may also decide to engage with non-domestic suppliers on this topic*.* We note the increasing number of non-domestic suppliers whereby smart is becoming a default aspect of meter recertification, or a requirement of contract onboarding or renewal. Energy suppliers already have commercial flexibilities to develop their business-to-business offerings in innovative ways to drive smart meter uptake. However, sharing industry best practice principles will help ensure that non-domestic energy suppliers remain on a level playing field in maximising market flexibilities to drive uptake, whilst ensuring that obligations towards microbusiness consumers (including protections) are met.

28. **We are undertaking substantial work to drive smart meter uptake in the public sector.** We have ensured that smart meters will continue to be an enabling technology for the next round of the Public Sector Decarbonisation Scheme (PSDS) when it opens for bids in Autumn 2023. The scheme has funded over 900 projects to date and demand for the PSDS continues to outstrip supply. In June 2023, the government published a revision of smart metering guidance for public sector organisations.[10] The guidance explores the benefits of smart meters, the installation process and case studies of smaller public sector organisations benefiting from their smart meter data. We continue to work with other government departments and relevant stakeholders to ensure the wide dissemination of this guide. The department has also recently commissioned and supported a range of initiatives including Energy Systems Catapult's Public Sector Decarbonisation Guidance (which includes smart meters and their role in evaluating energy efficiency measures) and the Department for Education's GOV.UK 'Buying for School Blog' which contains advice on smart metering (both published in April 2023).

29. **We will explore options for encouraging landlord acceptance of smart metering installations**, including opportunities to engage multi-property landlords and those who pay bills on behalf of their tenants. We will update suppliers on progress by Autumn 2023.

30. **We are making, and will continue to make, full use of other government strategies to drive engagement with smart metering.** Recent examples include the government's

[10] Smart meters in the public sector (June 2023)

flagship 'Help for Households' campaign where installing a smart meter is included as a key, no-cost step. Further, the department's non-domestic energy efficiency campaign (launched April 2023) includes smart metering as a key recommendation to small businesses and public sector organisations.

31. **We will work with energy suppliers, Smart Energy GB and other industry stakeholders to undertake a geographically coordinated approach** to drive installations and ensure the benefits of smart metering are distributed across Great Britain, including those living in both the most remote areas and urban areas.

32. **We have met our commitment to include a check for the presence of a smart meter when a full assessment of a home's energy and environmental performance takes place.**[11] Additionally, we will include a check as part of reduced assessments in future.[12] We will meet our existing commitment to ensure that if a smart meter is not present in the property this will appear on an EPC certificate, along with smart meter guidance.[13]

33. **We have published the Electric Vehicle (EV) Smart Charging Action Plan** (Jan 2023), with a new Government commitment to work with stakeholders to raise awareness that smart meters enable time of use tariffs which could help reduce energy bills for EV users.[14]

Consultation events

34. Following publication of the consultation in February 2023, the department conducted four stakeholder engagement events during February and March 2023. Stakeholders involved included large and small energy suppliers, covering both the domestic and non-domestic sectors, as well as trade bodies, meter installer organisations, and other delivery partners.

35. The stakeholder engagement events were organised to ensure attendees had the opportunity to understand the consultation proposals and their implications, and to address points for clarification. A summary of post-publication engagement is given in **Table 1** below.

[11] Energy Performance Certificate (EPC) Action Plan (November 2021)
[12] Reduced Data SAP (RDSAP) was introduced in 2005 as a lower cost method of assessing the energy performance of existing dwellings. More information can be found here: https://www.gov.uk/guidance/standard-assessment-procedure
[13] Energy Performance Certificate (EPC) Action Plan (November 2021)
[14] Electric vehicle smart charging action plan (January 2023)

Table 1: Post-publication stakeholder engagement events

Date	Organisation Type
09/02/2023	Smart Metering Delivery Group (SMDG): energy suppliers
22/02/2023	Independent Supplier and MEMs Forum: energy suppliers (non-SMDG), independent smart meter installer organisations (MOPS), IHD manufacturers and industry consultants
22/02/2023	Non-Domestic Working Group: non-domestic and mixed portfolio energy suppliers:
08/03/2023	Consumer Reference Group: Energy suppliers, Energy UK, consumer groups, Smart Energy GB, Ofgem and the Energy Ombudsman

Consultation responses

36. The closing date for the consultation was 21 March 2023. A total of 18 responses were received. The majority of responses came from energy suppliers. A list of individual respondents can be found in Annex A of this document. **Table 2** below provides a summary of respondents by organisation type.

37. A trade body representing energy suppliers supplemented its response with a report commissioned from a third party to evaluate our modelling assumptions. For the purpose of this government response, we will refer to this third-party analysis as 'the Energy Suppliers' Report' or 'the report'.

38. Some respondents expressed concerns about the length of time available to respond during the consultation process. The consultation deadline was set to enable us to publish the government response and make the associated amendments to licence conditions in good time, to provide energy suppliers and broader industry with sufficient notice of their Year 3 (2024) minimum installation requirements. In addition, this is the second time that we have consulted on the rollout model and the methodology to set tolerance levels. While we proposed to make some updates to incorporate the latest available evidence, the central components of the model and the tolerance methodology remained the same. We therefore consider that six weeks represented a proportionate period of time for consultation relative to the proposals. Nevertheless, where respondents informed us of

circumstances that meant they were unable to meet the deadline, we were able to provide some flexibility.

Table 2: Summary of consultation responses (by organisation type)

Organisation Type	Number of Respondents	Percentage of Total
Energy supplier (domestic only and mixed portfolio)	8	44%
Non-Domestic only supplier	3	17%
Meter Asset Provider (MAP) / Meter Manufacturer	3	17%
Trade body	2	11%
Other	2	11%
TOTAL	**18**	**100%**

39. This document provides high-level summaries of the responses to each of the 11 consultation questions. It sets out the government's response to each of the questions and confirms our intentions for energy suppliers' minimum installation requirements in Year 3 (2024) and Year 4 (2025). Section One covers Questions 1 – 2. Section Two covers Questions 3 – 8, Section Three covers Questions 9 and 10 and Section Four covers Question 11. There is an overall conclusion summarising the Government decisions at the end of each section.

Questions

QUESTIONS as consulted on in February 2023	
Q1	Do you agree with the proposed changes to the structure of minimum installation requirements for mixed portfolio energy suppliers set out in Section One of the consultation document? We welcome views from all stakeholders. Please provide rationale and evidence to support your answer.
Q2	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 of the consultation document? We welcome views from all stakeholders. Please provide rationale and evidence to support your answer.
Q3	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.
Q4	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.
Q5	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.
Q6	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.
Q7	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.

Q8	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.
Q9	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?
Q10	Do you agree with our proposed approach for adjusting for churn in relation to non-domestic installation requirements in Year 3?
Q11	Do you agree that the legal drafting in Annex C: Proposed Amendments to Standard Licence Conditions implements the policy intentions proposed in Section One and Section Three of this document? Please provide rationale for your answer.

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

Question 1

Summary of responses to Question 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?

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
4	2	2	1	5	4	18

40. Responses were split on this question, with six respondents agreeing and six disagreeing in total. The remainder were neutral or did not respond. Those that agreed tended to be non-domestic only energy suppliers or other (non-supplier) industry partners, alongside one mixed portfolio supplier. Those that disagreed tended to be mixed portfolio suppliers. One trade body agreed with the proposals and another trade body reported that the majority of their members disagreed. Several domestic or non-domestic only suppliers were neutral or did not respond to this question.

41. A recurring theme raised by respondents in support of the proposal was the importance of placing emphasis on the non-domestic rollout, including the consumer benefits of doing so.

42. Non-domestic only suppliers (or their representatives) felt that the proposals would help to address a situation (which they perceive exists under the current Framework arrangements) where mixed portfolio suppliers can avoid engagement with complexities unique to the non-domestic sector by prioritising domestic installations. These respondents supported the proposals as a means to ensure that all suppliers engage with non-domestic complexities collectively and on an equitable basis.

43. Similarly, one non-domestic only energy supplier noted in support of the proposal that an improved non-domestic installation rate from mixed portfolio suppliers will reduce the number of traditional meter customers switching to non-domestic only suppliers, providing

greater certainty regarding non-domestic only suppliers' remaining installation requirements.

44. Responses that disagreed with the proposal coalesced around two themes. Firstly, several mixed portfolio suppliers challenged our conclusion that they are deprioritising the non-domestic sector. Rather, they argued that slower rollout progress in this sector reflects the complexities associated with non-domestic installations. Secondly, respondents raised concerns that separate targets could lead to risks that would counteract the intentions of the proposal.

Deprioritisation

45. Regarding deprioritisation, mixed portfolio suppliers cited evidence that they argued suggests the non-domestic rollout is not slowing in comparison to the domestic rollout. The evidence they presented included figures showing a moderate difference in the percentage of meters converted to smart between the sectors, a higher proportion of non-domestic meters operating in smart mode, and the fact that non-domestic installations by large suppliers have been increasing annually since 2017 (with the exception of 2020, which is attributed to COVID-19).

46. Mixed portfolio suppliers also pointed to the effort and investment they have put into the sector relative to its portfolio size. Examples given of this investment included: dedicated campaign managers, offering incentives/rewards to drive uptake, and higher cost demand generation channels.

47. Finally (across Questions 1 and 2) suppliers listed a range of non-domestic sector complexities which they perceive are negatively impacting installation progress. These were: power down considerations for businesses, Third-Party Installers (TPI)s/brokers as a barrier to customer engagement, difficulties in establishing customer contact details or reaching the decision maker and complexities in the private rented sector.

Risks

48. Turning to the risks of the proposal, a trade body and two energy suppliers argued (across Questions 1 and 2) that the current flexibility (to meet targets across domestic and non-domestic installations) has allowed suppliers to adapt their approach to sector-specific circumstances, as they perceive them. For instance, according to these respondents, suppliers may justifiably choose to prioritise the conversion of domestic prepayment meters to smart, due to the additional benefits for these consumers. Whereas in the non-domestic sector, specific meter variants may not be available or installations may be excessively complex. According to respondents that disagreed with this proposal, separate installation requirements would penalise suppliers justifiably reacting to sector specific circumstances.

49. These respondents argued that taking away this flexibility could impact the domestic rollout. That said, another supplier argued that non-domestic targets could cause mixed portfolio

suppliers to choose to disengage from their non-domestic rollouts and focus on their domestic installations, rather than attempting to meet both sets of requirements.

50. Other suppliers raised concerns about the added complexities (in terms of delivery and regulation) of having separate domestic and non-domestic minimum installation requirements.

51. Some respondents used this question to raise concerns about the achievability of suppliers' non-domestic installation requirements, the level of ambition being set in Year 3 (2024) and Year 4 (2025), and about the general drivers and barriers to the rollout, including the policy interventions as summarised below at paragraphs 68 – 70. As these partially relate to our modelling assumptions and our projections of the smart rollout trajectory in the latter part of the Framework, they have been addressed in our responses to Questions 3 – 8.

Government response to Question 1

52. We confirm that we are proceeding with the proposal to amend the structure of requirements regarding domestic and non-domestic installations. This will remove the flexibility currently available to mixed portfolio suppliers to meet their annual installation requirements through any combination of domestic and non-domestic installations. It will make no change to the requirements for domestic only and non-domestic only suppliers, which already have to meet a domestic or a non-domestic requirement. Mixed portfolio suppliers' domestic targets will be set as a straight line to 100% minus the domestic tolerance level and their non-domestic targets as a straight line to 100% minus the non-domestic tolerance level (as is already the case for domestic only and non-domestic only suppliers). Amendments to licence conditions are discussed in Section Four below and details are set out in Annex D: Amendments to Standard Licence Conditions published alongside this response.

53. We agree with those respondents that highlighted the consumer benefits of ensuring that all energy suppliers focus on both their domestic and non-domestic rollouts. The non-domestic rollout is expected to lead to £1.5 billion of energy savings as a result of smaller businesses and public sector organisations engaging with their smart meter energy use data to identify savings. This is reinforced by recent changes to the non-domestic smart meter consumer data offer; by October 2024 all suppliers will have to provide smaller non-domestic consumers with free and regular information on their energy use (based on their smart meter data) to help them save energy and reduce costs. In addition, the government recently launched the Non-Domestic Smarter Tariffs Comparison Innovation Programme, which aims to fund projects that will identify, develop and test innovative solutions that provide tailored tariff comparisons and supporting advice to smaller non-domestic energy consumers based on their smart meter data.[15] Therefore, it is a key strategic priority of the government to ensure that the non-domestic rollout is delivered in a timely manner, so that sufficient meter numbers are installed to enable innovative technologies and tariffs to

[15] Non-domestic smarter tariff comparisons innovation programme (May 2023)

benefit small businesses and public sector consumers and deliver the government's net zero objectives.

54. We have concluded that the latest evidence shows a tangible risk to the realisation of these benefits if policy action is not taken to amend the structure of installation requirements for mixed portfolio suppliers. Firstly, we do not (as suggested by some suppliers) consider the small gap between domestic and non-domestic overall uptake or proportion of meters operating in smart mode across sectors to be an accurate measure of non-domestic focus relative to domestic under the Targets Framework. This is because uptake will be reflective of a range of historic factors (such as high advanced meter uptake in the non-domestic sector before the Targets Framework began) and meters operating in smart mode is not a robust measure of installation ambition. We also do not consider non-domestic installations by large suppliers since 2017 to be an accurate indicator of rollout progress as these have been influenced by suppliers entering and exiting the definition of 'large supplier' for reporting purposes. When evaluating non-domestic installations by all suppliers since 2017 this shows that current levels are consistent with those seen in 2017 (rather than improving), having returned following a dip during the pandemic.

55. We consider that a more accurate indicator of progress is how large mixed portfolio suppliers performed against their published domestic vs non-domestic Year 1 (2022) 'ambitions' (with only the overall 2022 target being enforceable under current arrangements).[16] Six out of seven of these suppliers performed better against their domestic electricity ambitions than non-domestic, and five out of seven performed better against their domestic gas ambitions. Moving into Year 2 (2023) of the Framework, we have compared mixed portfolio supplier published 'ambitions' for their non-domestic rollout against what their non-domestic target would have been, had the individual elements of the target setting formula (e.g., the domestic tolerance level applied to non-smart domestic premises and the non-domestic tolerance level applied to non-smart designated premises) been binding in Year 2 (2023). This shows that a significant number of larger mixed portfolio suppliers have published non-domestic ambitions lower than the target setting formula produces (four suppliers for electricity and two suppliers for gas). This approach means that a supplier is able to use the more generous non-domestic tolerance level (reflective of non-domestic installation complexities) in setting their overall target but then plan to achieve that target primarily through domestic installations at the expense of non-domestic installations.

56. We do accept that there are unique complexities associated with non-domestic installations, including those outlined in paragraph 47. We discuss the interaction between these complexities and our modelling approach and how we have set non-domestic installation requirements (for both mixed portfolio and non-domestic only energy suppliers)

[16] For Year 1 and Year 2 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.

in our response to Question 7. However, we consider that these complexities in and of themselves do not negate the policy rationale for proceeding with separate non-domestic installation requirements for mixed portfolio suppliers. As some non-domestic only energy suppliers pointed out (in agreement with the proposals), they are already required to engage with such complexities in order to meet their smart meter installation targets. Secondly, the level of installation ambition as established through the non-domestic tolerance level (to reflect such complexities) is a different question from whether that ambition should be enforceable for mixed portfolio suppliers.

57. In addition, several mixed portfolio suppliers acknowledged in their consultation responses that they do use existing flexibilities to prioritise domestic installations, either where there are challenges associated with the non-domestic rollout (see paragraph 48), or where they consider the benefits for some categories of domestic consumer to be greater, for example for those on prepayment meters. Whilst we agree that suppliers should retain flexibility to meet their customers' needs in general, the non-domestic tolerance levels have been specifically calculated to reflect complexities unique to the non-domestic rollout. If mixed portfolio suppliers wish to prioritise certain groups of domestic consumers, they may do so within their domestic installation requirements (and using the tailored domestic tolerance level) in the same way as domestic only suppliers. Non-domestic tolerance levels were not designed with the intention of giving mixed portfolio suppliers greater flexibility than that available for non-domestic only or domestic only suppliers, or with the intention of disadvantaging non-domestic customers who should also be entitled to receive a smart meter from their energy supplier. The fact that some mixed portfolio suppliers themselves acknowledge they are prioritising certain categories of domestic installations or lowering non-domestic ambitions relative to domestic, (which is permissible under current arrangements), lends weight to our conclusion that those arrangements need to change to ensure that suppliers' non-domestic ambitions (and focus) reflect those produced by applying the non-domestic tolerance level to their non-domestic customer base.

58. In addition, the arguments presented by some respondents about impacts on the domestic rollout tended to be anecdotal, with some respondents suggesting that non-domestic targets might cause suppliers to 'stop' installing domestic meters once their domestic targets are hit and transfer effort to non-domestic (at the expense of domestic consumers), and others arguing that suppliers may disengage with their non-domestic rollouts altogether in the face of non-domestic targets and instead focus solely on domestic to the benefit of domestic consumers. We do not accept these arguments; once energy suppliers have met their minimum installation requirements under the Targets Framework, they have other obligations to continue the installation of smart meters such as the New and Replacement Obligation, as well as obligations under licences towards vulnerable consumers. Furthermore, as outlined at consultation, the policy change formalises an existing policy expectation (with regards to the split of domestic and non-domestic installations) as opposed to creating new expectations regarding prioritisation of each. Focus on both domestic and non-domestic rollouts is necessary to achieve net zero and other rollout benefits.

59. Regarding additional costs and complexities, we do not consider that such costs would be at such a level to undermine the rationale for proceeding with the policy, particularly given the point above that the policy formalises an existing expectation (regarding the relative split of domestic and non-domestic installations). For example, whilst some mixed portfolio suppliers may consider that they need to revisit installer arrangements or adapt elements of their customer journey to meet their non-domestic targets, other mixed portfolio suppliers have historically treated their rollouts as separate or managed/tailored these elements with both rollout ambitions in mind in any case. More rationale/consideration of costs is set out in the Impact Assessment (Annex C) published alongside this response, which continues to show that the benefits of the Programme significantly outweigh its costs.

60. Points in relation to rollout constraints are addressed in our response to Questions 3 – 8, as they relate more to our modelling approach than the policy rationale for proceeding with amendments to the structure of installation requirements for mixed portfolio suppliers. Policy levers are addressed in paragraphs 21 – 33 above.

61. Overall, we consider that the policy change ensures that focus is placed on both domestic and non-domestic rollouts, delivering benefits for small business and public sector consumers. The policy change was supported by a range of stakeholder types (including one mixed portfolio supplier). The change presents an opportunity for non-domestic only and mixed portfolio suppliers to share good practice in relation to addressing the unique complexities associated with the non-domestic smart meter rollout.

Question 2

Summary of responses to Question 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?

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
0	0	14	0	0	4	18

62. Fourteen respondents answered this question. The question was not framed as an agree/disagree format, so all responses have been recorded as neutral. Most of the benefits and risks flagged under this question were the same as those outlined in response to Question 1 and are therefore captured under that question above.

63. Additional points raised under Question 2 were reputational risks (to suppliers and to the rollout) if non-domestic targets are not met, and interactions between non-domestic targets and installer capacity.

64. Regarding installer capacity, one mixed portfolio supplier argued that the separation of their workforce to meet domestic and non-domestic targets could increase costs. One non-domestic only supplier argued that separate non-domestic targets for mixed portfolio suppliers could increase labour shortages in the shorter term but increase recruitment in the longer-term. One supplier argued that the increased complexity associated with non-domestic installations (and therefore the specialised skillsets required) risks exacerbating labour shortages. One Meter Asset Provider argued that in the case of separate suppliers for electricity and gas, a process whereby the installer of the first smart meter notified the supplier of the other fuel when the communications hub was commissioned would help suppliers to identify customers with proven high probability of a successful installation.

Government response to Question 2

65. Our response to Question 1 addresses points in relation to the broader benefits and risks of the proposal to amend the structure of installation requirements for mixed portfolio suppliers. We address points in relation to non-domestic ambition and installer capacity in our responses to Question 7.

Section One – Conclusion

DECISION 1: The government confirms that the structure of installation requirements in the second half of the Framework will be amended so that mixed portfolio suppliers will be set separate domestic and non-domestic installation requirements. These requirements will be produced by applying the domestic and non-domestic tolerances separately to the number of domestic and non-domestic premises in each supplier's portfolio. Licence conditions will be amended to implement this decision (see Section Four and Annex D: Amendments to Standard Licence Conditions).

Section Two – Rollout model and tolerance levels

Question 3

Summary of responses to Question 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?

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
4	11	1	1	0	1	18

66. Respondents generally agreed with the proposal to retain the four key components of the rollout model (consumer acceptance, technical eligibility, operational fulfilment, and operational capacity). The majority of respondents agreed with caveats, four respondents agreed, no respondents disagreed, one disagreed with caveats, one did not respond, and one was neutral. However, respondents varied in their observations across the four key components and many raised concerns about what was included within the components and how the assumptions informing each were calculated and used in the model. These are summarised at paragraphs 71 – 94 below.

67. Several respondents also used this question, along with other sections of their response, to raise broader concerns about the Targets Framework, the methodology used to set tolerance levels and the proposed level of ambition for smart coverage in Year 3 (2024) and Year 4 (2025). While these points were raised across multiple questions, for ease of reference, they are summarised here.

68. A trade body representing energy suppliers included with their response an annex of recommended policy interventions that they argued were necessary to increase consumer demand for smart metering, these consisted of new requirements for smart meters to be installed:

- In all new builds (domestic and non-domestic) via changes to building regulations
- Where theft has been identified and where there are previous instance(s) of energy theft

- At the point of end-of-life replacement / meter recertification
- As a requirement of all government energy efficiency schemes
- In private and social rented accommodation and in non-domestic public sector premises
- Where an electric vehicle charge-point is installed

69. Other ideas for government intervention proposed and supported by individual respondents included: a centralised government levy on consumers without smart meters, smart contingent tariffs, switching from an 'opt-in' to 'opt-out' rollout model, prioritisation of vulnerable and fuel poor customers (over non-domestic installations) and making smart meters the default technology in all industry processes and supply chains.

70. Further suggestions raised by respondents were a switch to a non-supplier led rollout and ending the Targets Framework after 2022 or extending it to 2027 at the earliest (with minimum installation requirements spread over a longer period of time). A respondent raised a general concern in response to this question that the Framework risks prioritising installations over outcomes; for example, they perceived that disproportionate investment in driving non-domestic uptake could outweigh consumer energy saving benefits.

Further inputs to the rollout model

71. Despite the general agreement with the key components of the model, there were recommendations for further inputs. Three respondents identified what they felt were omissions from the rollout model. Two respondents argued that there should be an input prior to consumer acceptance, for customer contact, particularly in the non-domestic sector. One supplier argued that asset maintenance and 4G swap-outs should be accounted for in the model. Furthermore, the same respondent argued that gas only installations are more complex and should therefore be accounted for in the model in a different way. They raised concerns that the Framework and the domestic price cap constrains suppliers to focus working on the most cost-efficient installations only. One supplier also expressed concern that the Programme did not provide details of any assumptions on job times. It was suggested to include the replacement of 'dumb' or faulty SMETS1 meters in targets.

Levels of the assumptions used in the model

72. Turning to the assumptions used in the model, many respondents argued the Programme's consumer acceptance, technical eligibility, operational fulfilment and operational capacity, assumptions were overstated or based on unreasonable assumptions. These components of the model will be discussed in turn.

Consumer acceptance

73. Several respondents used this question to raise detailed analytical points relating to how we calculate consumer acceptance in our rollout model. As these relate to the assumptions used in our modelling, they are summarised and discussed at Question 6 and Question 7.

74. Some respondents agreed with the way that we account for consumer acceptance, with limited elaboration. Many respondents agreed with caveats with consumer acceptance as a component, but disputed the specific level. One supplier observed that consumer acceptance rates might have improved historically but it does not mean the rate of improvement will continue in the future.

75. Some respondents explicitly disagreed with the level of consumer acceptance in the rollout model. Methodologically, consumer acceptance is based on a survey of consumer attitudes in November 2021 – 'the initial conversion rate'. The report and one energy supplier observed that survey data may give a misleading impression of customer attitudes, as customer's stated preferences may differ from their actions.

76. One respondent applied their own customer conversion data and saw differences between their own assessment of feasible appointment volumes and the appointment volumes that would be required to meet the Framework's targets in Year 3 (2024) and Year 4 (2025).

77. Two respondents raised concerns about the negative impact of media publicity on consumer acceptance. This was a recurring theme throughout several responses both at specific questions and in covering letters. A trade body recommended that the Programme should include questions on non-smart accepters as part of its Appointments Outcome Waterfall exercise in the future.[17] One supplier noted that recent Smart Energy GB data up to December 2022 from their monthly Key Performance Indicator tracker indicates that more consumers would reject a smart meter in the next 6 months than would seek or accept one.

Consumer switching

78. Some respondents stated that limited consumer switching between energy suppliers due to current market conditions and limited competition has negatively impacted suppliers' ability to meet their minimum installation requirements in the first half of the Framework and will likely do so in the second half of the Framework. They suggested this is because newly switched customers have traditionally had higher conversion rates. Respondents noted that this trend for historically low switching had come about after the Framework began and therefore could not have been reasonably foreseen when parties were originally consulted. A trade body, the Energy Suppliers Report, and one supplier argued the model does not take into account consumer switching, despite being a key driver of consumer acceptance as (according to certain respondents) new customers convert at four times the rate of those already contacted multiple times.

[17] The 'Appointment Outcome Waterfall' forms part of the data that large suppliers report quarterly to the Programme as part of their licence conditions. The waterfall covers the end-to-end smart meter installation journey from point of booking to completed installation, and summarises the outcome of all smart meter installation appointments booked by a supplier with its customers in the previous quarter by allocating each appointment into a particular status category such as 'cancelled', 'in progress', 'yet to take place', 'failed', 'successfully completed' etc. The data is presented as a "waterfall" from left to right starting with 100% appointments booked moving through different fallout outcomes and ending with a final completion rate.

Technical eligibility

79. There were a range of responses regarding technical eligibility. However, some respondents chose to comment on technical eligibility elsewhere. One respondent agreed with no elaboration. One respondent agreed and described technical eligibility further at Question 7. Four respondents agreed with no further comments or elaboration.

80. Respondents expressed concern that our modelled technical eligibility was too high in the rollout model and reported that it did not align with their own experience of technical eligibility. Some respondents pointed to a number of specific technological issues, including Alternative-Home Area Network (Alt-HAN) delays, Radio Tele-Switching issues, Data Communication Company (DCC) system issues, no-Wide Area Network areas, Trust Centre Swap Outs, and ongoing technical issues with communications hubs, either requiring emergency replacements or swap outs to install Dual Band. There was some overlap in the operational capacity comments insofar as respondents claimed that technical challenges diverted resources from new installations to maintenance.

Communication hubs swap-outs

81. One respondent used this question to raise the issue of communication hub swap-outs, which will be required as a result of the switch-off of 2G and 3G communications technology in 2033. They observed that if the Programme continues directing the installation of 2G and 3G communication hubs before 4G hubs are available, it will increase Programme costs due to the repeat visits required. According to this respondent, this would incur additional and unnecessary costs as well as reputational risks to the Programme. The swap-out point was also raised in relation to the non-domestic sector and this specific point is addressed at Question 7.

Operational fulfilment

82. Regarding our proposed modelling of operational fulfilment, there were a range of responses. Some respondents agreed with no elaboration. Many respondents did not comment on the component of operational fulfilment specifically.

83. Many respondents disagreed with our operational fulfilment assumptions and its inclusion as a component of the model. A supplier argued successful installations are derived from consumer acceptance, which they argued is beyond their control. A trade body disagreed in principle with our modelling assumptions that rates of operational fulfilment will improve. They noted that the suppliers they consulted believed it would fall as the proportion of ‘hard to install’ customers increases in their remaining pool of customers. This point was reiterated by several suppliers.

84. One respondent argued that the original basis for our operational improvement metric had been taken out of context.

85. A respondent raised concerns that our modelling assumption that operational fulfilment will improve over time is arbitrary and no guidance had been provided for how suppliers can meet this improvement. They requested the consultation be extended to allow respondents to comment further on these assumptions and propose options to address the inconsistencies with the quarterly benchmarking reports submitted by suppliers to the Programme.

86. Some suppliers argued that operational fulfilment has not been correctly modelled in the non-domestic sector. They noted that there have been logistical challenges affecting installations in this sector. The challenges raised echoed those summarised under questions 1 and 2 above and included problems accessing meters, site staff not being correctly briefed leading to installers being turned away, and site staff not being in attendance at the appointed time.

Operational capacity

87. Two respondents agreed – and one respondent 'broadly' agreed - with our operational capacity assumptions, with no further elaboration. Some respondents explicitly disagreed with our operational capacity modelling. Four respondents did not make any specific comments on operational capacity at this question specifically. One respondent requested that installation time be included within the modelling of operational capacity.

88. Comments regarding operational capacity tended to coalesce around three broad points: shortage of installers, other demands on installer capacity, and specific modelling points. However other points were raised.

Shortage of installers

89. Many respondents raised concerns about labour shortages and the impact on operational capacity (either regionally or nationally). This was a recurring theme in the respondent covering letters, and responses to questions 3, 4, 6, and 7. All respondents with responsibility for installing smart meters reported concerns regarding installer capacity. This included one supplier that uses third-party installers.

90. Some respondents did not explicitly state that we had assumed operational capacity to be too high but used this question to comment on labour scarcity in the industry.

91. Two respondents referenced the reduction in the number of installers citing data provided by the Programme at the Smart Meter Delivery Group. The difficulties of retaining meter installers (after investing in training them) in a competitive labour market was referenced. Some suppliers described smart meter installers moving into other sectors such as heat pumps and electric vehicle charging points, as a further constraint on capacity. Alternatively, one supplier suggested that people do not want to pursue a career as a smart meter installer due to the incorrect assumption that the rollout will conclude in two to three years, meaning they will have to retrain for other roles.

Alternative demands on installer capacity

92. Two respondents mentioned replacing existing smart meters, either because they were SMETS1 meters that could not be enrolled on to the DCC or were faulty, as a constraint on capacity to undertake new smart meter installations. They reported that the requirement to do these replacements reduces their ability to install new smart meters that contribute to meeting supplier minimum installation requirements. One supplier noted that as the rollout progresses the complexity of meter installations is increasing, including for example, requirements to install prepayment meters, multiphase, Radio Teleswitch Services (RTS), and Alt-HAN. They stated that this has reduced capacity, due to the increased job times involved.

93. One respondent observed that while basing future capacity on past observed installations has advantages, it may be inappropriate if unexpected events had an impact on installation numbers. For example, if supply chains returned to pre-COVID-19 conditions increasing installation volumes. Conversely, one respondent expressed their concern that the Installation Calibration Mechanism (ICM) is based on a historic point in time, instead of the current operating context. They noted for example, that due to the higher ratio of less skilled/experienced apprentices to engineers, overall their productivity in Year 1 (2022) declined.

Operational capacity in the non-domestic sector

94. One supplier stated that the availability of third-party agent installer resources is a limitation on the ability of smaller non-domestic suppliers to meet their targets. A trade body and the Energy Suppliers Report used their answer to this question to express views on the proposed 'bottom up' approach to calculating the non-domestic Installation Calibration Mechanism. They highlighted two perceived inconsistencies. One was that if past installation rates were solely influenced by deprioritisation (and therefore not an accurate indicator of capacity) this would not explain why some non-domestic only suppliers did not meet their minimum installation requirements. Secondly, these respondents argued that by estimating installations that will take place in Year 2 (2023), we consider mixed portfolio suppliers are likely to install meters proportionally between sectors, which conflicts with our conclusions that the non-domestic rollout is being deprioritised. A trade body also referred to concerns raised by its members regarding factors impacting non-domestic capacity in the market; these are discussed further under Question 7.

Government response to Question 3

95. As explained in the consultation document, the rollout model was developed and adapted in response to a series of consultations between 2019 and 2021.[18] The resulting model is based on the rates at which eligible consumers are converted to smart meters and is calculated based on the drivers of consumer acceptance, technical eligibility, operational

[18] Delivering a smart system: a Smart Meter Policy Framework post 2020 (June 2020) and Smart meter policy framework post 2020: minimum annual targets and reporting thresholds for energy suppliers (June 2021)

fulfilment and operational capacity. **Noting the broad support from respondents to this question, we can confirm that these will remain the key components of the rollout model.**

96. We note the concerns raised by some respondents in relation to how these components are represented within the rollout model. **We are proposing to make some amendments to how we calculate the components of the model in response to the feedback received.** Where the concerns raised relate to the components themselves, our position is outlined below. However, much of the feedback given in response to this question related to the assumptions used to calculate each component of the model. Where this is the case, we have responded under Question 6 and Question 7 below.

Comments on the Targets Framework

97. We do not agree with the suggestion from one respondent that we should either extend the Targets Framework beyond 2025, or that we should end the Framework after 2022. The Targets Framework is a four-year Framework that was implemented following extensive consultation across industry. To bring the Framework to an end after only one year would be disruptive to industry, which has planned for four years of targets, and create wider uncertainty for investment. It would also be contrary to the government's policy intention to drive high levels of smart meter installation coverage by 2025. As set out in the Impact Assessment published alongside this response (Annex C), setting targets for Year 3 (2024) and Year 4 (2025) is expected to lead to a strongly positive net present value compared with a scenario in which only the NRO is applied. This is because under an NRO-only framework, energy suppliers would only be required to install new smart meters for new connections and in circumstances where traditional meters need to be replaced (subject to all reasonable steps). Modelling of the likely number of smart meter installations under this counterfactual scenario shows that maintaining the Targets Framework in Year 3 (2024) and Year 4 (2025) helps to maintain the rollout's momentum post December 2023, whereas in the NRO-only scenario this momentum would be lost, and installation rates would be substantially reduced, along with associated benefits to consumers and the energy system. We therefore remain convinced of the value of setting energy suppliers' annual targets to 2025.

98. Equally, we do not agree that the focus of the Framework on new installations means that costs risk outweighing benefits, particularly in the non-domestic sector. As outlined in paragraph 53 above, the non-domestic rollout is anticipated to lead to £1.5 billion of energy savings as a result of customers engaging with the half-hourly energy use data from their smart meter. High levels of non-domestic uptake are necessary to ensuring that all customers benefit from recent changes to the non-domestic smart meter customer data offer and that the market is able to innovate using half-hourly consumption data to the benefit of small businesses and public sector consumers. [19] We do not agree with the claim

[19] Maximising non-domestic smart meter consumer benefits, improving the data offer and enabling innovation (June 2022)

by one respondent that the non-domestic rollout involves disproportionate cost to energy suppliers; as set out in the Impact Assessment (Annex C) the non-domestic rollout accounts for 6% of meters covered by the smart meter rollout but 21% of the consumer benefits. In addition, as set out in the 2019 Smart Metering Implementation Programme – Cost Benefit Analysis, the business case for the rollout has now passed the 'breakeven' point, meaning that every additional smart meter added to the system brings a net benefit and is contributing to the positive and growing net benefit of the programme.[20]

99. We do not agree with the claims from one respondent that the rationale for introducing the Targets Framework was flawed, and that it is further called into question by the transition to 4G communications expected before 2G/3G switch off in 2033. The Targets Framework was introduced in order to drive the consistent, long-term investment needed to achieve high levels of smart meter coverage by setting annual targets and providing regulatory certainty. Smart meters are a critical tool in modernising the way we all use energy and supporting the transformation of the retail energy market. It is right that the government remains committed to ensuring that households and small businesses can benefit from smart meters as soon as possible. The Impact Assessment published alongside this response (Annex C) demonstrates that the approach set out in this response will deliver a net benefit to Great Britain of £1.3bn. This assessment takes account of the costs of early replacement for those 2G and 3G communications hubs installed under the Targets Framework, before 4G communication hubs become available (see paragraph 48 in Annex C). As noted in paragraph 98 above, every additional smart meter added to the system brings a net benefit and it therefore remains beneficial to install new smart meters as soon as possible. We therefore remain confident that setting suppliers annual minimum installation requirements to the end of 2025 is the best means of delivering the benefits of the smart meter rollout to consumers and to industry. Importantly, suppliers must ensure that they have realistic plans for sufficient SMETS2 stock to meet their binding installation requirements in Year 3 (2024) and Year 4 (2025), including sufficient contingency of 2G/3G communications hubs to accommodate any timetable adjustments to the DCC's delivery of the 4G communications hub expected from H2 2025 (July – Dec). This is a core responsibility for suppliers in managing their rollout.

Consumer acceptance

100. We continue to consider that consumer acceptance should be one of the biggest drivers underpinning the forecasting model, given the voluntary nature of the smart meter rollout. We recognise that consumer demand is likely to become a constraint in the latter half of the Framework and this has been accounted for in our modelling.

101. We consider that there is merit to some of the detailed suggestions for how we can adjust our conversion assumptions to reflect historic conversion and recent data. We have, therefore, updated our conversion assumptions to reflect this feedback. As this feedback is specific to the assumptions used to calculate consumer acceptance, the suggestions, and

[20] Smart meter roll-out: cost-benefit analysis 2019 (September 2019)

the amendments we have made in response to them, are discussed in detail under Question 6 and Question 7 below.

Domestic consumer acceptance

102. We do not agree with respondents' claims that we should fundamentally change our approach to modelling consumer attitudes. Whilst we understand that individual energy suppliers will hold information on their own specific customer bases, our assumptions are supported by industry wide representative data provided by Smart Energy GB via their Outlook tracker and Recontact Surveys. Smart Energy GB's data is based on a robust methodology with a large sample size of data collected on behalf of energy suppliers. The Outlook tracker is designed to be representative of the GB population. The Recontact survey is a follow-up survey of respondents to Outlook. Both surveys are based on a robust methodology with a large sample size.

103. We note respondents' concerns that consumers may become harder to convert in the second half of the Framework, as a greater proportion of those consumers that remain without a smart meter will likely have been offered and refused a smart meter multiple times, or may be less engaged and therefore harder for suppliers and Smart Energy GB to reach. In our modelling, we assume that the attitudes of any non-smart consumers become progressively worse on average, as those accepting a smart meter are more likely to have positive attitudes and are thus removed from the pool, leaving behind those with less positive attitudes. We do not, however, agree that amendments are needed to further account for a reduction in consumer acceptance. It is important to note that the attitudes in Smart Energy GB's Outlook survey relate to consumers' intentions over the coming six months. Observations from the Smart Energy GB Recontact survey suggests that consumers can and do move between attitude groups, with a proportion of consumers that were previously unlikely to take up a smart meter claiming to get a smart meter or moving into a more positive (or neutral) attitude group.[21] This trend offsets some of the reductions in the positive attitude groups and slows the depletion of positive attitudes from the pool of non-smart consumers. Based on this evidence we apply a prudent attitude offset – the 'attitude boost' – when projecting the domestic rollout. This 'attitude boost' continues to be observable in the most recent waves of the Smart Energy GB Recontact survey. The most recent waves of the survey show that movement from the 'indifferent' and 'unlikely' groups into more positive attitude groups has been maintained. [22] We therefore consider it is reasonable to retain the attitude boost within our modelling of domestic consumer acceptance.

104. We did, however, see merit in the suggestion in the Energy Suppliers' Report that we should update the attitude boost so that it is based on the latest Smart Energy GB data (May 2022 for Outlook and November 2022 for Recontact) and have amended our

[21] The Recontact Survey for November 2022 showed that 1 in 5 of those previously unlikely to take up moved into these more positive categories.
[22] Surveys for May 2022 and November 2022

calculation of this boost accordingly. We have also made some further rounding adjustments. These amendments are discussed further at paragraph 172 below. The result of these amendments is to reduce the level of the 'attitude boost' and, consequently, the amount of conversion that we expect in Year 3 (2024) and Year (2025).

105. In addition, there remains more that energy suppliers can do to engage consumers and efficiently convert them into booked appointments and successful installations. We have seen positive results from suppliers that have used more targeted communications to convert consumer groups where uptake of smart metering has historically been lower than average. For example, to increase conversions in the private rented sector, the department encourages energy suppliers to capture customers' housing tenure information to enable tailored campaigns to renters, to maintain dedicated smart meter related resources suitable for renters, and to provide further guidance for customers who cite concerns about their landlord as a reason for declining smart meters. One supplier who developed a proactive, tailored campaign for customers in the private rented sector saw a conversion rate more than three times their core rate after two weeks of the campaign. This leads us to conclude that this type of tailored approach can yield successful results, and we are keen to see suppliers take a proactive approach to targeted communications and creating incentives to installation for the most relevant groups in their customer base. From our bilateral meetings with suppliers, we also know that suppliers are using a number of techniques to encourage demand and successfully stimulate higher conversion rates. These include targeted campaigns to Radio Tele-switch customers, targeting of traditional prepayment customers with messaging leveraging the benefits of direct payment of the Energy Bill Support Scheme payments (compared to the need to use vouchers for traditional prepayment) and other support, as well as convenience and more flexibility. Some suppliers are also adapting their strategies by using human-controlled bespoke customer selection and targeted messaging highlighting specific benefits to complement automated campaign engine-generated mass contact customer communications. Other techniques include selective and targeted use of incentives and higher cost channels, such as face-to-face and pay-per-click, use of more assertive language and targeted assumptive booking, particularly in areas of under-utilisation of installer capacity, and use of in-life touch points and conversion of inbound demand. By adopting innovative strategies such as these, suppliers will be in a position to maximise all opportunities for customer conversion.

106. In addition, suppliers can do more to convert positive consumer attitudes into installations. The best suppliers successfully install meters for over 75% of customers that make appointments, whereas the weakest performers do so for less than 55% of booked appointments. This demonstrates the potential that exists for suppliers to improve their end-to-end installation and customer journeys and thereby convert demand into installations. In addition, improvements in installation success rates and improved customer journeys may be expected to reduce negative sentiments and, consequently, the negative word of mouth that can supress consumer demand and drive customer-led cancellations. Measures by suppliers to increase installer field force will also mean that more customers that would like a smart meter are able to book an installation in good time and at a time suitable for them,

thereby further supporting suppliers to make best use of existing demand. It may also be the case that customer attitudes towards smart meters improve over the latter part of the Framework, as the number of households and other premises with smart meters continues to increase and they are seen as the default meter and needed to access innovate tariffs and services.

107. Respondents raised a number of concerns related to current or potential future trends in consumer behaviour. Our position on these is as follows:

- **Consumer switching:** We accept that there have been low levels of switching in the domestic retail energy market since late 2021. Energy suppliers relied on this as a channel for generating smart meter appointments to varying degrees. While this trend will have reduced the potential for campaigning to new customers for some suppliers, we are aware of good practice from suppliers in adapting to this, for example by better mining of inbound contact channels and use of more assumptive messaging during campaigning. Further, it is worth noting that the modelling forecasts under consideration here are estimating consumer acceptance in Year 3 (2024) and Year 4 (2025). We expect market circumstances in those years to be different to those seen in 2021 – 2023; as the spike in wholesale gas prices subsides, we expect that energy suppliers will progressively begin to once again offer competitive fixed tariffs and that this will result in increases in customer switching from the recent historic low levels.[23] This position was also reflected in our most recent round of bilateral engagement with suppliers. We therefore consider it would be inappropriate to adapt our model for future periods based on circumstances specific to the market in 2021 – 2023.
- **Negative publicity**: We note respondents' concerns that the recent publicity around the forced installation of prepayment meters may lead to an increase in reluctance to receive a smart meter, as these meters can be remotely switched between payment modes. However, we note that media stories emerged from suppliers' own activity on this issue and subsequently considerable effort has been made by Ofgem and by industry to protect and reassure the public regarding energy supplier practices relating to prepayment meters. All British domestic energy suppliers have now signed up to Ofgem's updated Involuntary Prepayment Meter Supplier Code of Practice and tougher oversight of prepayment meters. The government sees the Code of Practice as a step in the right direction, with better protections for vulnerable households, increased scrutiny of supplier practices and redress measures where prepayment meters were wrongly installed. Ofgem is currently undertaking a formal statutory consultation process to modify suppliers' licence conditions in line with the code, which, dependent on the outcome of the consultation process, could allow Ofgem to use its full enforcement powers to enforce compliance with the requirements.[24] The government will continue to work closely with Ofgem and industry to see that the code leads to positive changes for vulnerable consumers and will not hesitate to intervene again if necessary. Given these measures, we do not expect concerns related to remote switching of smart meters to have a material impact on customer demand in Year 3 (2024) and Year 4 (2025). In

[23] Retail market data from Ofgem indicates that levels of switching have begun to rise slightly since the beginning of 2023. Ofgem, Retail Market Indicators.
[24] Ofgem, Statutory Consultation – Involuntary PPM (June 2023)

addition, as noted in paragraph 11 above, prepayment customers see particular benefits from smart meters, and the recent £400 Energy Support Scheme discount, which was applied automatically for those on smart prepayment meters, has provided an opportunity to emphasise the benefit of smart prepayment to consumers.

Non-domestic consumer acceptance

108. We accept that there are unique complexities associated with customer conversion in the non-domestic sector. These include those outlined in responses to Question 1, such as power-down considerations for businesses, TPIs/brokers making customer engagement more challenging, difficulties in establishing customer contact details or reaching the decision maker and complexities in the private rented sector.

109. However, we have already accounted for these by calibrating conversion rates to historic non-domestic installation rates in our modelling of non-domestic consumer acceptance. 'Capping' assumed conversion in line with past installation rates allows for a range of factors which could make conversion more challenging in the non-domestic sector, including challenges in securing contact with the decision maker, but which individually are unquantifiable and may differ in scale for each energy supplier depending on the nature of their customer base. In addition, given that historic non-domestic installation rates have been driven by factors other than solely the customer engagement complexities in and of themselves (including the extent to which suppliers have developed successful strategies to mitigate such complexities, alongside operational fulfilment outcomes and other factors described throughout), capping conversion in line with historic installation rates ensures a high degree of prudence in this area of the model.

110. It also remains the case that there are a number of areas where improvements to the customer journey could overcome challenges which can make non-domestic conversion challenging, including suppliers collecting good quality data on the non-domestic customers in their portfolios. This can include up to date information on decision makers or segmenting non-domestic customers by their attitudes to smart meters.[25] We therefore consider that the current rollout modelling takes account of additional customer journey factors specific to the non-domestic sector, and do not agree that a different approach to modelling non-domestic consumer acceptance is required.

111. We note respondents concerns in relation to the evidence base for non-domestic consumer attitudes. However, we remain confident in the evidence that we have used to model non-domestic consumer attitudes and conversion. This is discussed further in paragraphs 202 – 208 below. We do, however, accept that there is some weight in the argument that consumer attitude surveys can oversimplify real-world scenarios. We propose these challenges are best addressed through updates to the way in which conversion assumptions are adjusted to reflect historic conversion and therefore, real-world outcomes. Therefore, in line with amendments being made to the domestic modelling, we

[25] Non-domestic smart meter consumer segmentation (February 2023)

have taken steps to update this aspect of our calculations to reflect feedback received. These updates are explained in further detail in paragraph 201.

112. In relation to the suggestion by one respondent that we should adjust our approach so that vulnerable and fuel poor domestic consumers are prioritised over non-domestic consumers, we agree that there are considerable benefits to vulnerable consumers from smart meters. However, we judge that setting ambitious requirements across the domestic and non-domestic market best realises the benefits for vulnerable households, businesses and the public sector.

Policy measures

113. We note the calls from respondents for government to introduce additional measures to generate consumer demand. These have been addressed in paragraphs 21 – 33 above.

Operational fulfilment

114. We note respondents concerns regarding our operational fulfilment assumptions, particularly the inclusion of an operational improvement assumption, whereby we assumed an increase in conversion rates for both the domestic and non-domestic sectors. We continue to consider that there are several areas in which energy suppliers can deliver improvements to operational fulfilment. We have strong evidence that operational fulfilment has been improving over the course of the Framework to date and there is considerable scope for this to continue. Indeed, evidence suggests that if all suppliers had performed at the operational level of the best supplier (as reported to the Programme in the Appointments Outcome analysis) industry would have achieved 800k more installations (domestic and non-domestic combined) in 2022 than were achieved in practice. However, we also recognise that there is additional uncertainty over how this rate of improvement will continue in the latter stages of the Framework. This uncertainty makes it more difficult to calculate a robust assumption for the uplift to conversion rates we expect to see in Year 3 (2024) and Year 4 (2025). We have, therefore, removed the operational improvement assumptions as standalone metrics in both the domestic and non-domestic rollout modelling. This amendment is discussed in more detail under Question 6 and Question 7. While we have removed the metric in order to take a prudent approach to modelling the rollout in Year 3 (2024) and Year 4 (2025), we expect there to be further operational improvement for the duration of the Framework. The Programme will continue to work closely with industry to share evidence and best practice on what improvements can be made in order to maximise progress.

Operational capacity

115. As explained in the consultation document, the rollout model projects installations based on consumer demand assuming that this demand can be fulfilled by energy suppliers. To address this, and to avoid a situation where the consumer conversion calculation within the model generates meter installations above a rate that evidence suggests the market can successfully fulfil, we apply a specific Installation Calibration Mechanism (ICM) to make sure that any projections will be supported by market operational capacity. We will continue to use this calibration as part of the measure to ensure that the minimum installation requirements are realistic.

116. In the consultation document we proposed to continue to calculate the domestic ICM based on installation activity from September and October 2020. On consideration of the responses received, we saw merit in respondents' arguments that continuing to use data from 2020 risked not basing the rollout modelling for Year 3 (2024) and Year 4 (2025) on more recent evidence. Therefore, in order to continue to base our modelling on robust and recent data, we are updating our capacity assumption to use 2022 data. We are also making amendments to the non-domestic ICM, to respond to concerns raised about the validity of some of the assumptions underpinning the proposed new methodology for calculating non-domestic installation capacity. Further details are set out in our responses to Question 6 and Question 7 below.

117. We do not agree with respondents' suggestions that the ICM should be reduced to account for smart meter replacements, asset maintenance or 4G swap-outs. We consider it remains reasonable to expect that an organised, motivated and efficient supplier will make the necessary investments in field force (and operational fulfilment) to meet their installation requirements alongside their other obligations. Other obligations, for example for asset maintenance or replacement, would exist regardless of the smart meter rollout. Building up and sustaining adequate field force will support energy suppliers to meet all their regulatory obligations up to and after end 2025. We do not accept respondents' claims that current low installer numbers are the maximum that can be reached; indeed, higher installer numbers have been achieved by industry previously. Our expectation remains that suppliers should be doing more to recruit and train new installers in order to grow the overall workforce over the next year by c. 1000 Full Time Equivalent (FTE) installers back towards the numbers available in 2020. The latest insight from large suppliers suggests that installer numbers are reported to have increased by around 160 between end Q4 2022 and end Q1 2023. Making the necessary investments in field force will be particularly important for those suppliers that underperformed against their installation requirements in Year 1 (2022), and the Programme will continue to use regular bilateral engagement to support energy suppliers to develop best practice for ensuring they have sufficient installer numbers to meet their installation requirements across all geographies, so no area is underserved.

118. In 2022 we supported suppliers in looking for opportunities to share installation capacity and welcome their activities to optimise and more fully utilise the capacity they currently

have available to them. We also know from our bilateral meetings with suppliers that there are positive initiatives underway to recruit and train new installers in targeted geographies, and a number of suppliers are forecasting significant capacity growth. Increasing focus on roaming teams can help ensure capacity can be made available in areas of higher demand, particularly those areas that have had lower smart coverage to date. Such roaming activity is now returning towards the levels seen before COVID-19 and we encourage industry to continue taking measures to ensure installation capacity is matched to areas of high consumer demand. This additional workforce and better utilisation of existing capacity will support energy suppliers to ensure that they can continue to meet their obligations under the Targets Framework alongside replacement and maintenance activity. In addition, from bilateral discussions with energy suppliers we know that remedial works for non-operating meters do not always require the meter to be replaced. As such it is not always necessary for a skilled meter installer engineer to attend the visit, as other field operatives may be able to do the work, and we understand there are third-party companies already providing such a service commercially to energy suppliers. We welcome these new service developments to support suppliers. This lends weight to our assumption that remedial works can be carried out alongside the new installations necessary to achieve the minimum installation requirements in Year 3 (2024) and Year 4 (2025). Further, we do not anticipate suppliers beginning 4G swap-outs at scale before the end of the Targets Framework based on the timescales for delivery of the new 4G communications' hub solution, and our bilateral engagement with suppliers to date.

119. We note respondents' suggestions that our assumptions on domestic installation capacity should account for job times. However, we consider that this is already accounted for within our current modelling as the domestic ICM is not a derived calculation from productivity rates, installer FTE numbers and other factors, but is instead calculated on actual outputs using total installations carried out by industry in a defined period which cover the full spectrum of job types encountered. As such, we consider this is the most reasonable measure of what the industry has achieved and can achieve. By adjusting our assumption to base the domestic ICM on more recent data (for further detail see our response to Question 6), and by making the changes to the non-domestic installation assumption set out under Question 7, we are ensuring that our assumptions remain robust and based in recent evidence. We do not agree that any further amendments are needed.

120. Regarding the assumed split between domestic and non-domestic installations in calculating the Year 3 (2024) starting point, the assumption made at consultation stage was based on the proportion assumed if the target setting formula was applied proportionately. However, this was for modelling purposes only while we awaited 2022 data. We can confirm that this assumption has now been updated using actual data from 2022 on the relative portion of installationss in each sector, as detailed in our response to Question 4.

Gas-first SMETS2 installations

121. We accept that installing a SMETS2 gas smart meter in premises where an existing SMETS2 communications hub is not already installed (referred to here as 'gas-first SMETS2 installations') can be more resource-intensive than other types of installations. We are aware that many suppliers have consequently prioritised targeting their dual fuel customers for the first two years of the Framework. The intention of the Targets Framework is to drive the rollout of smart meters across the market, so that as many consumers as possible receive the benefits of smart as soon as possible. As such we want to ensure that customers who choose to contract with separate suppliers for each fuel type equally benefit from smart metering. We also recognise that certain energy suppliers may be disproportionately impacted by this issue if they have a large proportion of customers requiring gas-first SMETS2 installations in their consumer base.

122. We understand that this issue is particularly pronounced in the non-domestic sector. Proportionally, more non-domestic customers choose to contract separately with different suppliers for each fuel type and therefore some non-domestic suppliers may encounter 'gas-first' scenarios more frequently.

123. On this basis, we agree that it is appropriate to make adjustments to the Targets Framework to take this issue into account, and to ensure that customers that might benefit from gas-first SMETS2 installations have an equal opportunity to receive a smart meter.

124. Respondents have highlighted that they have prioritised dual fuel consumers in Year 1 (2022) and Year 2 (2023) of the Framework. We therefore consider this issue to be material for the latter half of the Framework only, as suppliers increasingly seek to target these more resource-intensive gas-first installations in order to meet their installation requirements.

<u>Adjustment for 'gas-first SMETS2' installations</u>

125. We can therefore confirm that we will make an adjustment to the way in which installations are counted under the Targets Framework, to account for the additional resource required for gas-first SMETS2 installations.

126. We will amend licence conditions to provide an additional 'credit' towards gas targets for installations where a gas SMETS2 meter is installed at a premises where the electricity meter is not SMETS2. This is for the following installation types:

i) The installation of a SMETS2 gas meter at a premises where a traditional electricity meter is present on site, by a supplier who only supplies the gas at the premises.

ii) The installation of a SMETS2 gas meter at a premises where a SMETS1 electricity smart meter is present on site, by a supplier who only supplies gas at the premises.

iii) The installation of a SMETS2 gas meter at a premises where an electricity advanced meter is present on site, by a supplier who only supplies gas at the premises.

127. When considering progress towards the total installation requirement in a given year, these installations will count as equivalent to **1.5** installations. This value has been chosen to represent the 50% additional time taken to install a 'hot shoe' device in the scenarios highlighted above, in line with evidence provided through consultation responses.[26]

128. This weighting of 1.5 will be introduced in the Gas Supply Standard Licence Condition (33A.5A) through the introduction of a "Z" value (see Annex D: Amendments to Standard Licence Conditions). We reserve the right to change this value through Secretary of State direction, subject to consultation, at any point should we become aware of new evidence to suggest that a different value is required.

129. In practice, this amendment will mean that a supplier's progress towards meeting their installation target will be calculated on the basis of the following:

Example equation for illustrative purposes:

A supplier installs 1000 SMETS2 gas meters in a given year. Of these:

- *825 are dual fuel installations, installed alongside an electricity SMETS2 meter and communications hub.*
- *100 are installed on a site with no electricity smart meter installed, and they are not the electricity supplier for this site.*
- *50 are installed on a site with a SMETS1 electricity meter supplied previously by a different supplier.*
- *25 are installed on a site where a SMETS2 electricity meter is already installed*

The progress towards gas targets for that year will be:

825 + 1.5(100+50) + 25 = 1075 installations*

130. This additional credit will only be applied when assessing a supplier's progress towards targets within any given year and will **not** impact the calculation of the supplier's targets in subsequent years. This additional weighting will be available for both domestic and non-domestic installations that meet the criteria set out in paragraph 126, and for all suppliers regardless of the composition of their portfolio.

131. We have not created separate rollout models for gas and electricity smart meter installations (as suggested by one respondent), as the potential impact of more resource-intensive gas-first SMETS2 installation is one that is not faced to the same degree by all suppliers in the market and is not relevant to all gas installations.[27] We therefore consider adjusting all gas installation requirements would be disproportionate and unnecessary. Providing the additional weighting per installation ensures that those suppliers with

[26] A 'hot shoe' is a piece of technology required for a gas smart meter installation if the electricity meter is not a SMETS2 meter.

[27] For example, it is not relevant for any gas installation where a SMETS2 communications hub is already on site i.e. dual fuel installation by a single supplier, or gas installations by a supplier only supplying gas, where the electricity supplier has already installed a SMETS2 meter.

portfolios that contain a larger proportion of gas-first SMETS2 installations are not disproportionately penalised by more resource-intensive installations, whilst not over-adjusting the installation requirements for those that do not. Additionally, the amendment we are making provides suppliers with a choice of how to meet their targets, either through dual fuel installations, or with a combination of dual fuel and gas-first SMETS2 installations.

132. By confirming the value of the weighting at this stage, we wish to provide certainty to suppliers, to enable preparations for Year 3 (2024) and Year 4 (2025) of the Framework to begin, whilst ensuring that suppliers are able to better deal with portfolios with higher proportions of gas-first SMETS2 installations.

Technical eligibility

133. To avoid duplication, we have addressed all responses received on technical eligibility under Question 6 and Question 7.

Question 4

Summary of responses to Question 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.

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
1	0	0	1	15	1	18

134. There was general disagreement with the proposed Year 3 (2024) starting point and only one respondent agreed. Under the consultation proposals, the model assumes that Year 2 (2023) minimum installation requirements have been met in reaching the starting point for Year 3 (2024). The majority of respondents noted that Year 1 (2022) targets had not been met. There was broad consensus that the Year 3 (2024) starting point should not be based on Year 2 (2023) minimum installation requirements being met. Alternatives suggested were Year 1 (2022) actual performance, Year 2 (2023) estimated performance, the performance of the highest performing suppliers, or using a revised version of the rollout model to forecast Year 2 (2023) installation numbers.

135. Although the minimum installation requirements for Year 1 (2022) and Year 2 (2023) were not in scope of the consultation, almost all respondents noted that they did not

consider the requirements for those years to have been reasonable, and argued that it was, therefore, inappropriate to base our assumptions for the Year 3 (2024) starting point on them.

136. Some respondents noted that, following the installation progress made in 2022, the market-aggregate installation requirements for Year 2 (2023) were above the Installation Calibration Mechanism applied in the modelling of tolerance levels for Year 1 (2022) and Year 2 (2023). One respondent suggested that Year 2 (2023) tolerance levels should be revisited.

137. Some respondents disagreed with the assumption that the domestic and non-domestic installations will be in proportion to the relevant sections of suppliers' portfolios, given the deprioritisation of the non-domestic sector that we had recognised in our Section One proposals.

Government response to Question 4

138. Meeting annual smart meter installation requirements is a condition of suppliers' licences.[28] As such, we continue to expect all suppliers to meet their obligations as set out. Enforcement action is a matter for Ofgem. On this basis, we consider it was appropriate to assume that energy suppliers would perform as required to meet their minimum installation obligations in Year 2 (2023) of the Framework when we consulted in February 2023.

139. However, we note respondents' concerns that the assumptions used to calculate the starting point should be grounded in the most recent available evidence of installation progress. Since consulting, we now have access to official statistics data from Q1 2023 (published on 25 May 2023) and administrative installation data for Q2 2023 (Apr – June).[29] We recognise the importance of basing our assumption for the Year 3 (2024) starting point on up-to-date evidence, including if this shows underperformance against targets. **For this reason, we are now confirming our intention to update our assumptions for the Year 3 (2024) starting point.**

Assumption for installations in Year 1 (2022)

140. In the modelling presented at consultation, we calculated the number of smart meters installed in 2022 based on the official statistics data then available (that for large suppliers up to end September 2022) and an estimation of the remainder. We committed to update the estimated components of this assumption with official statistics on the number of smart meters operated (as of 31 December 2022) when we responded to the consultation. We can confirm that our projection of installations in 2022 has now been updated to use this annual official statistics data. As such, for the smart coverage at the end of 2022, we have

[28] Gas Supply Gas Supply Licence Standard Condition 33A and Electricity Supply Licence Standard Condition 39A, Licences and licence conditions
[29] Smart meters in Great Britain, quarterly update March 2023 (May 2023)

used the number of domestic and non-domestic smart meters in operation at the end of December 2022 from official statistics.[30]

Assumption for installations in Year 2 (2023)

141. Given the evidence from official statistics and from administrative installation data from April to June 2023, we have also updated our forecasts for the number of installations that we estimate to take place in 2023. Where data is available for the first part of the year, we have used this to adjust our calculation. For Q1 2023 we have used the number of reported qualifying domestic and non-domestic smart meter installations from official statistics, increased to account for the estimated number of installations made by small suppliers in this period.

142. We do not yet have official statistics data for installations in April to June 2023. Therefore, for the number of installations in Q2 2023, we have applied the Q4 2022 – Q1 2023 daily installation rate to the number of working days in Q2. We have chosen this period as it represents the most recent six-months of installations. In addition, it also includes the best performing quarter under the Targets Framework for both the domestic and non-domestic sectors. For the domestic sector, the best performing quarter was Q4 (Oct – Dec) 2022. For the non-domestic sector, it was Q1 2023 (Jan – Mar). We consider it is reasonable to assume that energy suppliers can achieve daily run rates in this period akin to the best performance under the Targets Framework so far in each of the domestic and non-domestic sectors. This figure has been validated using administrative installation data for April – June 2023.

143. We have applied the same method to calculate the number of installations we estimate to take place in the second half of 2023. Therefore, for H2 2023, we have used sector-specific daily run rates from Q4 2022 – Q1 2023, multiplied by the number of working days in H2 2023.

144. We consider it is reasonable to assume that energy suppliers improve their performance to install at a rate closer to target pace. There is considerable evidence to demonstrate that performance improvements by suppliers are possible. Failure and completion rates data provided to the Programme by energy suppliers indicates that, especially in relation to cancellations and rebooking failed jobs, there are improvements that suppliers could be making in the remainder of 2023 that would lead to higher completion rates even without a change in the number of booked appointments. In addition, measures to increase recruitment into the field force that have been underway since Q4 2022 can reasonably be expected to deliver an increase in installations in the second part of 2023. It is also the case that suppliers can make improvements in campaigning to customers and generating demand, in line with Smart Energy GB and other coordinated work. We therefore consider it

[30] Smart meters in Great Britain, quarterly update March 2023 (May 2023)

is reasonable to assume that industry will install more smart meters in the second half of 2023 than in the first half.

145. The amendments outlined above mean that we are calculating the relative domestic and non-domestic proportions of Year 2 (2023) installations based on sector-specific actual data and sector-specific future estimations based on this data. We are no longer assuming that the domestic and non-domestic installations will be in proportion to the relevant sections of suppliers' portfolios.

146. Following the amendments set out above, we are now projecting that market-wide smart meter coverage will reach 61.4% by 1 January 2024 (61.6% domestic smart coverage, and 57.0% non-domestic smart coverage). This is compared to 64.0% in the proposals that we consulted on. **It should be noted that these amendments represent a change to our modelling assumptions only. Energy suppliers' installation requirements for Year 2 (2023) remain unchanged.** Suppliers that fail to meet their installation requirements in Year 2 (2023) may face enforcement action from Ofgem as set out in their Enforcement Guidelines. Ofgem will be engaging with energy suppliers on their rollout performance throughout 2023 and have noted that any supplier who ends 2023 in breach of their targets should expect to be subjected to compliance activity, enforcement action, or both.[31]

147. We do not agree with the suggestion from one respondent that we should base our calculation of the starting point on the performance of the highest performing suppliers in the market. The tolerance levels are applied market-wide and we therefore consider it appropriate to base them on market-wide data that is representative across industry. Using performance data from a single supplier would not be representative and would risk unsuitable rollout projections.

Year 2 tolerance levels

148. We note that some respondents raised concerns, here and in their response to other questions, relating to the minimum installation requirements in Year 2 (2023). However, the February 2023 consultation related to minimum installation requirements in Year 3 (2024) and Year 4 (2025) only. As set out in the consultation document, the Year 2 (2023) tolerance levels were not under review. The Year 2 (2023) tolerance levels are therefore outside the scope of this government response.

149. The amendments made to the calculation of tolerance levels in Year 3 (2024) and Year 4 (2025) proposed at consultation and those being implemented following consultation, are based on updated evidence gathered for the Mid-Point Review (see paragraph 17). The amendments have no bearing on Year 1 (2022) and Year 2 (2023) tolerance levels and minimum installation requirements, which were based on data gathered as part of the November 2020 consultation and June 2021 government response on the minimum

[31] Smart Meter Rollout: Open letter on Energy Suppliers' Delivery of the Rollout and Regulatory Obligations (April 2023)

installation requirements that apply in the first half of the Targets Framework.[32] Energy suppliers are still required to meet their installation requirements for Year 1 (2022) and Year 2 (2023), which are a binding obligation set out in licence conditions.

Question 5

Summary of responses to Question 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.

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
10	4	0	0	0	4	18

150. The majority of respondents agreed with separate rollout projections for the domestic and non-domestic sectors. Two respondents declined to comment on the basis they are domestic only suppliers.

151. There was broad consensus that the non-domestic sector has a range of complexities which can make installations more challenging. Many respondents identified non-domestic sector specific challenges such as those outlined in their responses to Question 1. Others flagged complexities including non-domestic customers that appoint independent metering agents, customers withholding consent to meter upgrades as leverage in contractual disputes and logistical challenges with site access. Some respondents commented that non-domestic sector challenges had been exacerbated by current economic conditions, namely that business closures and unwillingness to power down in current conditions are negatively impacting installations.

152. A trade body recommended that the modelled tolerance levels for the non-domestic sector take into account the number of hard to read/access sites, as profile class 3 and 4 meters include unstaffed energy and water utility infrastructure (which can be padlocked), in obscure locations, require staff attendance and/or risk assessments. According to the trade body, suppliers with utility companies in their portfolio can have a disproportionate number of these sites within their installation requirements.

[32] Smart meter policy framework post 2020: minimum annual targets and reporting thresholds for energy suppliers (November 2020, June 2021).

153. As a supplementary point, this question asks specifically about whether the rollout projections that form the basis of the annual tolerance levels should continue to be separate, not whether domestic and non-domestic installation requirements should be separate for mixed portfolio suppliers (see Question 1 and 2). Some respondents used this question as an opportunity to comment on their preference that targets for mixed portfolio suppliers should continue to be aggregated across sectors. These points and our response are discussed under Question 1 and Question 2 above.

Government response to Question 5

154. In response to industry feedback, when modelling the rollout in Year 1 (2022) and Year 2 (2023) of the Framework we developed distinct domestic and non-domestic assumptions to account for the different circumstances between the two sectors. **Noting the support in response to this question, we can confirm that we will continue to calculate the domestic and non-domestic rollout projections separately, using distinct sector-based assumptions.**

155. We agree that there are unique complexities associated with smart meter installations in non-domestic premises, including those outlined above and in paragraph 47. We consider that our non-domestic modelling projections, which are based on evidence specific to the non-domestic sector, take account of these circumstances. Our response to concerns raised by respondents on the challenges for the rollout in the non-domestic sector are discussed under Question 7 below.

156. Where respondents have raised concerns about our proposal to amend the structure of requirements regarding domestic and non-domestic installation requirements, these have been considered within our response to Question 1 and Question 2.

157. We do not agree with the suggestion that the non-domestic tolerance levels should be additionally adjusted to take account of Industrial & Commercial customers that fall within Profile Classes 1 to 4. Energy suppliers have experience of rolling out advanced meters to Industrial & Commercial customers in Profile Classes 5-8 and 00, and we would expect them to be able to use this to support delivery of the smart rollout to any Industrial & Commercial customers that fall within scope of the smart metering mandate. In addition, we know that 70% of sites covered by the smart metering mandate are microbusinesses. While some premises covered by the Targets Framework may be in harder to reach locations at Industrial & Commercial sites, energy suppliers should be seeking to take account of this as they further their understanding of the nature of their customer bases. Suppliers that have previously raised this issue in bilateral discussions with the Programme have noted how they effectively project manage these sites to achieve smart meter installations, working closely with relevant partners to understand the location and provide access. We therefore consider it would be disproportionate to introduce a market-wide modelling adjustment for these types of sites specifically.

Question 6

Summary of responses to Question 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?]

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
0	0	0	0	12	6	18

158. The majority of respondents disagreed with this question, with the remainder not providing a response. Some respondents used this question to raise broader suggestions for modifying the Framework, such as including replacing smart meters operating in non-smart mode in installation targets and recommended policy levers as summarised at paragraph 68. There was a degree of overlap with the points made in response to Question 3. Where points were raised under Question 3 that related directly to the assumptions used to project the domestic rollout, these are summarised and addressed here. The assumptions used to calculate each of the components of the model will be discussed in turn.

Consumer acceptance

159. In general, respondents considered our consumer acceptance modelled assumptions to be higher than their experience of the rollout. Some respondents made particular reference to the negative impact of the increase in energy prices that began in 2022, as well as the lack of consumer switching and negative media coverage regarding smart meters and prepayment in particular in late 2022. These respondents noted that the rollout model predated these events and raised concerns that it does not, therefore, take them into account. The Energy Suppliers' Report provided a detailed critique of consumer acceptance as set out below:

160. The report noted small differences in some of the data provided to them by Smart Energy GB and that used in the rollout model. They also stated that there was discontinuity in our methodology that contributes to increasing the number of 'seekers' that we assume between H1 2021 (Jan – June) and H2 2021 (July – Dec).

161. The report also critiqued the rollout model's approach to consumer attitudes, arguing that it does not adequately account for the 'heterogeneity' within the attitudinal groups used. The report suggests that each group contains customers who have been campaigned to

about smart to varying degrees, with those who have already been campaigned to being harder to convert. They argue that to date there was a supply of newly eligible (and therefore not campaigned to) consumers as a result of increases in technical eligibility. With technical eligibility now at relatively high levels there is limited potential for this to continue and therefore attitudinal groups will become harder to convert over time. They instead suggest that over time as the number of people who have rejected a smart meter at least once increases, the population will in reality become increasingly 'heterogenous', particularly in the non-domestic sector. They recommended that further research is carried out to ascertain whether there are certain groups that are systematically less likely to convert to smart meters and that we take this into account in our rollout modelling. The report does not consider that the attitudinal boost overcomes this issue.

162. The 'attitude boost' is a component of the domestic rollout model designed to counteract decreasing numbers of 'seekers' as consumers continue to convert to smart meters. Some respondents argued that there is no significant evidence of the attitude boost that we predict, beyond that initially accounted for in Year 1 (2022) and Year 2 (2023). Two energy suppliers suggested that the increase in consumer acceptance in 2022, was due to an increase in energy prices and was therefore temporary and they expect it to revert to trend in 2023. According to these respondents, additional rounds of communication appear to show limited conversion to 'seeker/accepter' positions, and greater outreach is increasingly needed to make an installation. Conversely, one respondent believed that the consumer attitude boost should be higher, due to increased awareness of the benefits of smart meters.

163. The Energy Suppliers' Report also raised objections to our use of the 'attitude boost' in the rollout modelling. The report claimed that there is an inconsistency in the treatment of conversion numbers in the attitude boost modelling, which leads to the attitude boost being overestimated. The report also noted that the attitude boost does not include the latest available data from Smart Energy GB. The report recommended an adjustment to include the latest wave of data for both Outlook (May 2022) and the corresponding Recontact survey (November 2022), so that the boost is calculated using the average difference from May 2018 to May 2022, rather than May 2018 – November 2021 as it was in the consultation.

164. Two suppliers reported that for their customers, conversion rates are declining over time. Some respondents observed that the Smart Energy GB Outlook survey does not reflect levels of conversion as seen by suppliers. One respondent recommended that more up to date Smart Energy GB data could now be used. Two suppliers noted that, based on recent Smart Energy GB data, there has been an increase in negative attitudes, with one particularly noting that this is the case in their target cohorts: aged 65+, low income, and prepayment. Furthermore, these respondents reported that while positive attitudes amongst renters have increased this has not transferred into increased installations. On the other hand, one respondent observed that their anecdotal experience is that consumer attitudes are improving.

165. One supplier made the point that General Data Protection Regulation (GDPR) and Information Commissioning Office (ICO) guidance has restricted their marketing of the benefits of smart meters to consumers. Data Communications Company outages were also referenced as a further limitation on consumer acceptance.

Technical eligibility

166. There were a range of responses regarding technical eligibility. Further to the technical eligibility issues previously discussed at paragraphs 79 – 81, one respondent argued that technical solutions for all scenarios are now available, and any future issues could be solved. Conversely, one respondent requested further support to ensure all possible actions are taken to increase technical eligibility where it is currently limited.

167. The Energy Suppliers' Report provided a critique of our technical eligibility assumptions. They identified a referencing issue, which we have acknowledged as an error and have corrected in our final rollout modelling. More substantively, the report argued our eligibility series when compared to supplier-provided series, leads to higher conversion rates. Specifically, they argued that historical eligibility is understated in the first of half of 2021 and overstated from the second half of 2021 onwards. Both metrics will lead to higher installation projections. The report asked a 'selection' of the trade body's members for their views. Of the two energy suppliers that provided data, both supported the view that technical eligibility as modelled is too low in the second half of 2021 (and prior) and overstated thereafter. They argued that the Joint Industry Plan, from which our technical eligibility assumption derives, is not a well-recognised source of eligibility assumptions. They stated that they expect us to carry out a more thorough and open review of eligibility assumptions with energy suppliers and adopt an eligibility series derived from that as an alternative.

Operational fulfilment

168. Respondents largely discussed the same points made at Question 3, detailed in paragraphs 82 – 86. Some respondents observed there are decreasing numbers of 'seeker/accepters' as the rollout progresses. They argued that this means that operational fulfilment improvements cannot be sustained. Many respondents argued the 0.7% modelled increase in operational fulfilment per half year has been overestimated and operational performance cannot improve further in Year 3 (2024) and Year 4 (2025). Reasons provided by respondents included; that improvements for operational processes have already been mainly achieved, that increasing complex installations are likely make up an increasing proportion of installations, and that technical eligibility improvements now are near universal (although this is contradicted elsewhere, see paragraphs 79 – 80 above) so we can expect limited increase in operational fulfilment due to these.

Operational capacity

169. Further to the capacity issues discussed at paragraphs 87 – 93 above, some respondents reported on other activities in the sector that require resource, and which they did not consider to be accounted for in our rollout model. This included SMETS1 replacements, fixing or replacement of non-operating smart meters, installation of 4G-ready communications hubs, the Remote Communication Obligations for Electricity Advanced Meters (R00145) change, Trust Centre Swap-outs and business as usual activities. One respondent suggested that other additional resource requirements may emerge in the future, which the rollout model does not account for. Conversely, one respondent disagreed with our modelling assumption that future performance is most appropriately based on past performance, and recommended it should instead be based on policy objectives.

Government response to Question 6

170. We recognise respondents' concerns that some of the assumptions in the rollout model as consulted on may overstate the number of smart meter installations that can be achieved in Year 3 (2024) and Year 4 (2025). **In response to this feedback, we have made a number of updates to our domestic modelling assumptions.** Our position on each of the component modelling assumptions and an outline of the changes that have been made from consultation stage are summarised below. More detailed explanation of the updates to our modelling assumptions is included at Annex B: Analytical evidence.

Consumer acceptance

171. The Energy Suppliers' Report identified a discontinuity in how we modelled the consumer attitude split between H1 2021 (where it was based on modelled figures) and H2 2021 (where it was based on actual figures from Smart Energy GB survey data). As there were fewer seekers in the period in which the model was calibrated, the report suggested that this meant conversion rates going forward (driven by the 'better' attitude splits) were overstated. The report argued that we should ensure there is consistency in the attitude split figures, and they suggested using actual figures from Smart Energy GB Outlook data for H1 2021. **We consider there is merit to the suggestion that we should update the way in which our conversion assumptions are adjusted to reflect historic conversion, to avoid this discontinuity. We are therefore updating our approach to use actual figures from Smart Energy GB Outlook data for H1 2021.** The result is a reduction in the levels of conversion that are assumed possible in Year 3 (2024) and Year 4 (2025). In making this change, we are recognising the concerns raised by suppliers that conversion is likely to become more difficult in the latter half of the Framework, as the pool of customers that are positive towards smart meters reduces. As noted in paragraph 103 above, we already account for this in our rollout model, by assuming that the attitudes of any non-smart consumers become progressively worse on average. However, in light of the feedback received to the consultation, we consider it is appropriate to make sure we are adopting a robust way of calculating conversion in Year 3 (2024) and Year 4 (2025).

172. We do not agree with those respondents that suggested we should remove the 'attitude boost' from the domestic rollout modelling. As explained in paragraph 103 above, the assumption that some customers can become more positive to smart metering over time continues to be supported by evidence from Smart Energy GB's Recontact surveys. **We do, however, agree with the suggestion that we should update the attitude boost so that it is based on the latest Smart Energy GB data (May 2022 for Outlook and November 2022 for Recontact).** We can confirm that we have made this update and now use an amended data series to calculate the attitude boost, using only data from the period after COVID-19 restrictions (starting with data from May 2021). In addition, to ensure this is a prudent estimate, where the sum of the attitude distribution is over 100%, we have reduced the size of the 'seek' category to ensure totals are 100% and attitudes are conservatively estimated. Where the sum is under 100%, we have increased the size of the 'unlikely' category to again ensure a prudent estimate. The result of these amendments is to further reduce the amount of conversion that we expect to see in Year 3 (2024) and Year 4 (2025).

173. One respondent referred to the following wording in the consultation document, '*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.*' It should be noted for clarification that this sentence referred to the previous modelling conducted to calculate the Year 1 (2022) and Year 2 (2023) tolerance levels. We updated the data on consumer attitudes to reflect the most recent waves of Smart Energy GB Outlook and Recontact surveys for our consultation proposals, and these have now been further updated to reflect the up-to-date survey data (May 2022 for Outlook and November 2022 for Recontact).

174. Beyond these adjustments, we do not believe that further amendments are needed to account for customer heterogeneity. We consider that customer heterogeneity is already accounted for in the model through the use of the Smart Energy GB attitude and particularly Recontact data, which provides us with robust data on overall conversion from each attitude group (and thereby captures any heterogeneity in propensity to get a smart meter). This represents the best market-wide evidence base to use for modelling. Furthermore, we consider there remains more that suppliers can do to target their customer engagement in more sophisticated ways to different groups of customers, which will improve levels of conversion. As set out in paragraph 105, there is also more that suppliers can be doing to engage and convert consumers, including by targeting specific groups such as private renters. It is also important to note that Smart Energy GB's Outlook data shows that recent increases (between November 2021 and May 2022) in negative attitudes in their target groups (aged 65+, low income, and prepayment) is in line with changes seen in the general population 'seek/accept' levels between the same time period, indicating that negative attitudes are not increasing more among these groups. Smart Energy GB data also indicates that renters are more positive towards smart meters than the general population; in the May 2022 Outlook survey 42% of renters said they would seek or accept a smart meter, compared to 36% overall.

175. One respondent reported that in their experience there were particular consumer demand challenges associated with prepayment customers. We do not consider this to be borne out by the evidence from Smart Energy GB, which shows seek/accept levels are higher among prepayment customers than credit customers. Most recent figures show that 13% of all smart meters are in prepayment mode which is broadly in line with the overall levels of prepayment meters in the market (14%), despite smart prepayment becoming available on an industry-wide basis later than smart credit.

176. We have set out our response to concerns raised in relation to the impact of low levels of customer switching on consumer acceptance, of recent negative publicity regarding prepayment meters, and to the claims of a reduction in customer acceptance over time in our response to Question 3 above.

Technical eligibility

177. We do not agree with those respondents that claimed our technical eligibility assumption was overstated. While several respondents presented evidence of the eligibility profile within their own portfolios, we do not consider that supplier-level data provides a sufficiently comprehensive or robust data set to determine the market-wide proportion of customers who are technologically capable of receiving a successful smart meter installation. In contrast, the Joint Industry Plan (JIP) is an industry-backed plan of agreed milestones. The JIP was originally established and baselined in 2014, so is a long-standing and well-established set of milestones, and is reviewed regularly in consultation with industry at fora organised by the Smart Metering Implementation Programme. The most recent iteration of the JIP was baselined with industry support in March 2023. We therefore consider that an eligibility series derived from the JIP remains valid as a robust means of calculating technical eligibility in Year 3 (2024) and Year 4 (2025).

178. We note respondent's concerns that technical barriers remain in relation to some smart meter installations. However, we consider that these issues either have been or are being resolved, either by suppliers or key industry partners such as the DCC. For example, technical solutions now available, among others, include T1, T2 and T3 aerials, 3-phase electricity SMETS2 meters, Dual Band communications hubs, 868 sub-GHz gas SMETS2 meters, Fylingdales SMETS2 communications hubs, U16 gas SMETS2 meters, flying leads and 'hot shoes' for communications hubs as well as the Alt-HAN solution (a technological solution for households where the components of the Home Area Network (HAN) are otherwise unable to communicate). The rollout model uses technical eligibility as its input; that is, the proportion of customers whose metering points are technologically capable of completing a successful smart meter installation. This is separate from how energy suppliers choose to categorise their customers as eligible or ineligible for campaigning. This is a business decision made by each supplier and therefore not appropriate to account for in our market-wide modelling. **We therefore do not consider that these issues represent fundamental barriers to eligibility and have maintained a technical eligibility assumption of 99.3% in Year 3 (2024) and Year 4 (2025).**

Operational fulfilment

179. Evidence from the Programme's operational performance benchmarking and best practice sharing work with large energy suppliers indicates that there are several areas in which energy suppliers can deliver improvements to operational fulfilment (for instance through adoption of industry best practice), in addition to improvements demonstrated by some energy suppliers to date. Such improvements would be expected to translate into increases in conversion rates from the same volume of appointments, and for this reason in our consultation document we proposed continuing to apply an uplift to conversion rates to reflect these expected improvements. The operational improvement metric that we included was based on an extrapolation of the improvements already being made by industry. We have considerable evidence from regular reporting by large energy suppliers of their appointment outcomes (information which is then shared back individually and collectively with large suppliers in an anonymised form) that suppliers can be doing more to improve their performance on operational fulfilment. The improvement assumption that we included was a realistic one, with the improvement expectation still below the performance of the best performing supplier on this measure.

180. There are clear advantages to suppliers of improving operational fulfilment to a level of better performing suppliers (see paragraph 114). We expect suppliers to increase their capacity to fulfil all their regulatory obligations through a mix of new installer recruitment and improved installation efficiency. However, we also accept that there is additional uncertainty associated with the level of improvement that will be possible as we reach the latter part of the Framework. This uncertainty makes it more difficult to calculate a robust assumption for the uplift to conversion rates that we can expect to see in Year 3 (2024) and Year 4 (2025). **We have, therefore, removed the operational improvement uplift as a standalone metric within our rollout projection.** This has the result of further reducing the conversion expected in Year 3 (2024) and Year 4 (2025).

181. In making this adjustment, we are taking a prudent approach to modelling the rollout in Year 3 (2024) and Year 4 (2025). Given the scope that remains for improvement by suppliers and the current level of smart meter coverage as at end Q1 2023 (57%), we consider it remains reasonable to assume that the ceiling for performance improvements has not yet been reached and that improvement can continue to be made by industry in the latter half of the Framework. Suppliers are therefore expected to continue to make progress in operational delivery, which will support them to reach their installation requirements in Year 3 (2024) and Year 4 (2025). We will continue to work closely with industry to share evidence and best practice on what improvements can be made.

Operational capacity

182. As noted in our response to Question 3, we have adjusted our calculation of the domestic Installation Calibration Mechanism (ICM) in response to feedback received. To continue to base our modelling on robust and recent data, we have updated our assumption to use data from 2022. We have used a benchmark period in the best quarter

of installations under the Targets Framework, which was Q4 2022 for the domestic sector. We consider this represents a reasonable balance of incorporating the latest evidence and maintaining the reasonable assumption that industry can consistently perform in line with their best recent installation rates. The adjustment we are making has the effect of reducing the domestic ICM from 2.45m to 2.22m per six-month period. Full details of the data used to arrive at this figure are provided in Annex B: Analytical evidence.

183. Following the adjustments made to the modelling of consumer demand and conversion, the revised domestic ICM does not bind for the domestic rollout projection in Year 3 (2024) or Year 4 (2025). This is because the model projects that consumer demand will be below the level of installation capacity in the second half of the Framework for the domestic sector.

184. We know from bilateral engagement with energy suppliers and evidence presented at the consultation stage that suppliers anticipate increases in the size of the field forces by the end of 2023, and it remains our expectation that they should be seeking to increase their installer workforce. While we project consumer demand to be below the level of installation capacity in the latter half of the Framework, the additional field force, as well as supporting delivery of installation requirements up to 2025, will enable suppliers to meet all their regulatory obligations on an ongoing basis, including where this involves remedial action to fix non-functioning meters and to replace meters where required. We do not, therefore, agree with respondent's suggestions that we should make further adjustments to the ICM to account for this additional activity required by suppliers. This is discussed in more detail in our response to Question 3.

Total meter points assumption

185. One respondent raised what appeared to be a variance between the total meter points used in the rollout model when compared with official reporting on smart meter installations. The reporting referred to by this respondent is the large supplier operating table in the official statistics publication. The rollout model is market-wide and therefore uses the total number of meters across both large and small suppliers. We consider that using market-wide evidence is the most accurate method and do not agree that doing so overstates the number of metering points in the market.

Question 7

Summary of responses to Question 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?

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
0	0	0	3	9	6	18

186. The majority of respondents disagreed (or disagreed with caveats) with Question 7, with the remainder not providing a response. Most respondents did not disagree with the key components of the model, but questioned specific non-domestic modelling assumptions or the validity of the data from which they are derived.

187. Several respondents referenced Year 1 (2022) underperformance with reference to the Year 3 (2024) starting point. Several respondents highlighted what they perceived to be widespread under-performance of suppliers against their Year 1 (2022) minimum installation requirements (including non-domestic aspirational targets) and suggested this was evidence that the modelling assumptions used previously were overoptimistic. Several respondents argued that our modelling needed to take into account underperformance in Year 1 (2022) from which to draw the rollout trajectory. Where respondents made comments specific to the calculation of the Year 3 (2024) starting point, these have been summarised and addressed under Question 4.

Consumer acceptance

188. Several respondents disputed that there remained significant non-domestic customer demand from those yet to convert to smart and questioned the ‘seek/accept’ rate proposed in our modelling. Suppliers noted that their experience of consumer acceptance tended to be lower than that assumed in our rollout modelling. Consumer acceptance in gas installations was raised as a particular challenge.

189. The Energy Suppliers’ Report argued that consumer acceptance calculations, using the Smart Energy GB surveys alongside the surveys commissioned by the Programme, had resulted in overly optimistic conversion expectations. This is in part because of the tendency for a greater number of intermediaries between the supplier and the decision maker in the non-domestic sector, which means that survey responses may only represent

part of the customer journey. Some respondents argued that Smart Energy GB's Microbusiness Tracker sample size is too small to accurately measure non-domestic consumer acceptance as an input to a binding target. The Energy Suppliers' Report also raised concerns about the shift to using the Programme's own surveying as the data series for attitudinal distribution, rather than Smart Energy GB's Microbusiness Tracker. The report argued that a consistent methodology should be used and recommended that we return to using the Microbusiness Tracker.

190. Some respondents raised concerns that the evidence underpinning our assumptions of consumer acceptance did not account for the unique circumstances of the non-domestic sector. As referenced at paragraph 71, two respondents requested a modelled input of consumer contact prior to consumer acceptance, given complexities regarding making contact with the decision maker in the non-domestic sector and the use of intermediaries and brokers, and other respondents raised this as a particular concern for the non-domestic sector. The Energy Suppliers' Report suggested that applying attitudinal propensities from the domestic Recontact survey to the non-domestic sector could understate the diversity of attitudes that exist. The report noted that ideally the attitudinal breakdown for both sectors would be based on observed data of different groups to convert.

191. Furthermore, interactions with the likely swap-out of 2G/3G for 4G communication hubs were raised by one respondent as a potential limitation on consumer acceptance. For example, this respondent argued that customers may prefer to wait until 4G communication hubs are available to avoid the disruption of a second site visit. A supplier expressed their preference to wait until 4G communication hubs are available, as continuing to install 2G and 3G communication hubs could lead to a requirement for repeated appointment.

Technical eligibility

192. Some respondents with non-domestic portfolios considered the Programme's modelled technical eligibility to be too high or inflexible. One supplier noted that their experience of technical ineligibility is slightly higher than modelled and one supplier reported that 18% of appointments made in one of their retail business portfolios failed for technical reasons.

193. SMETS2 meters for large gas customers were raised by one energy supplier with a non-domestic portfolio as a particular technical challenge. Another respondent noted the preponderance of three phase meters which require more specialist installers, which is a constraint on capacity specific to the non-domestic sector.

194. One supplier with a non-domestic portfolio recommended the Programme's modelling should account for unforeseen circumstances that may occur in future, such as the silicon shortage that they claimed had negatively impacted supply chains and increased costs.

Operational fulfilment

195. Similar to the responses summarised at paragraphs 82 – 86, respondents tended to consider that our proposed operational fulfilment modelling assumptions are overoptimistic. Several suppliers commented on general operational fulfilment challenges associated with non-domestic installations. These included: longer customer lead times, the possible need for District Network Operator (DNO) and/or Gas District Network Operator (GDN) remedial works and operational differences between large multi-site customers and microbusinesses. One supplier argued that, if retained, the operational fulfilment assumptions should be fuel specific given the additional challenges relating to gas installations.

Operational capacity

196. Several suppliers disagreed with our proposed alternative methodology for calculating the non-domestic ICM in Year 3 (2024) and Year 4 (2025). One supplier queried whether it is valid to make any assumptions about what number of installers "could' be dedicated to non-domestic installations, given that resource is often fungible across sectors and not ring-fenced for non-domestic. Others flagged whether the three installations per day assumption takes sufficient account of the varied installation circumstances that may occur in the sector. Another queried whether the proposed capacity is realistic in light of historic installation rates. Given these factors, the Energy Suppliers' Reports suggested reverting back to the Year 1 (2022) and Year 2 (2023) ICM of 110,000 installs per six months.

197. Other respondents pointed to general trends impacting non-domestic installer capacity, including a reduction in the number of installers in the wider market. One supplier highlighted the additional training that may be required for specialised non-domestic installers and how that can result in longer recruitment times. One respondent commented that smaller suppliers' abilities to maintain capacity is more limited as they do not have the same purchasing power that large suppliers do, or the ability to recruit in house installers. As with the domestic rollout, some respondents proposed that gas single fuel installations and meter maintenance should be factored into capacity assumptions.

Advanced Meters (AMRs)

198. One supplier with a non-domestic portfolio argued that there should be additional allowances made in relation to non-domestic requirements, in order to permit AMR meter installations to count towards suppliers' annual targets. Namely in cases where all reasonable steps (ARS) have been taken in attempting to install a SMETS meter, but this has proved technically infeasible. Currently, the Advanced Meter Consumer Choice policy, within the New and Replacement Obligation section of Licence Conditions, is drafted as an ARS obligation, meaning that suppliers must take all reasonable steps to install SMETS2 meters in microbusinesses, except where the meter is a Current Transformer or Large Gas meter, in which case it must be AMR. Non-microbusinesses can be offered a choice of

meter type, providing the choice includes SMETS and all relevant information to make an informed decision between SMETS and AMR has been provided.

199. The respondent highlights that current licence conditions permit the installation of an AMR in microbusinesses, or in non-microbusinesses that initially chose SMETS, under the AMR Consumer Choice Policy, providing all reasonable steps have first been taken to install SMETS, however these installations cannot count towards suppliers' annual targets under the definition of Qualifying Metering Systems for the purpose of meeting Smart Metering Installation Targets in Section 39A (electricity) and Section 33A (gas) of Standard Licence Conditions. The respondent recommended an amendment to align these two parts of the licence conditions, so that in such cases where an AMR is installed as a back-up technical solution, after attempting all reasonable steps to install SMETS, that this should count towards a supplier's annual targets.

Government response to Question 7

200. In line with our approach to modelling the domestic rollout, we have made a number of updates to our non-domestic modelling assumptions in response to supplier feedback. Our position on each of the component modelling assumptions is summarised below. Again, detailed responses to the feedback received on our assumptions is included at Annex B: Analytical evidence.

Consumer acceptance

201. **In light of the feedback received in the Energy Suppliers' Report and in line with the approach taken to domestic modelling (see paragraph 171), we have amended the way we calibrate our conversion assumptions against historic data.** For the non-domestic rollout projections, we use Smart Energy GB's Microbusiness Tracker (which collects data on attitudes towards smart meters amongst microbusinesses) as the basis of our calibration of survey data to actual installations. In response to the suggestion in the Energy Suppliers' Report, we have updated our approach to use actual figures from the Microbusiness Tracker for H1 2021, rather than modelled figures. The result is a reduction in the levels of conversion that are assumed possible in Year 3 (2024) and Year 4 (2025) compared to the approach consulted on. This approach ensures that our modelling outcomes are derived from recent data on observed consumer attitudes. For further details of the amendments made to our modelling approach see Annex B: Analytical evidence.

202. We do not, however, agree with the suggestion in the suppliers' report that we should revert to using Smart Energy GB's Microbusinesses Tracker as the basis for our modelling of non-domestic consumer attitudes. The intention of the Mid-Point Review was to use the most up-to-date, comprehensive and robust data as the basis for our assumptions. We consider that the surveys of non-domestic consumer attitudes commissioned by the Programme in the past two years represent a more comprehensive, and therefore stronger, data set on attitudes than the Microbusiness Tracker. The Smart Energy GB survey uses a sample of 250 microbusinesses (of which some have already upgraded to smart meters),

and does not include non-microbusinesses. In addition, it does not include a quota for public sector sites (who are therefore only included in limited numbers), or capture likelihood to seek or accept a smart meter among organisations with only some premises converted to smart. It is also not weighted to the characteristics of the broader non-smart population including by size and by prevalence of private versus public sector. In comparison, the Programme-commissioned survey has a larger sample size (705 in Wave 1 and 800 in Wave 2), has been weighted using GB-wide population characteristics and includes non-microbusinesses (as well as microbusinesses) and a quota for public sector organisations. We therefore believe it to be a more realistic reflection of the wide range of organisations that suppliers will need to engage to meet targets. Other respondents provided a range of alternative (and highly varying) proposed figures regarding non-domestic customer attitudes but did not provide detail of their methodologies.

203. Whilst we therefore have high confidence that the Programme-commissioned survey is the most robust, market-wide data on non-domestic customer attitudes available, we have taken some steps to ensure additional prudence in our final model. Wave 1 of the survey (used as the basis for the non-domestic consumer segmentation) used a mixed mode (online and telephone) methodology, whereas the Wave 2 survey was online only. [33] **Therefore, to mitigate for any online-only bias, we have amended the final model to utilise Wave 1 attitudes (rather than Wave 2) which results in more conservative final assumptions regarding positive sentiment to smart meters.** This results in a final seek/accept level of 56%, 19% indifferent, and 25% reject levels.

204. To further validate our assumptions, we have compared the Wave 1 Programme survey attitudes (excluding non-microbusinesses) against Smart Energy GB's Microbusiness Tracker.[34] These show similar attitude distributions (and as a result, we believe the Microbusiness Tracker will remain a useful source of insights into the microbusiness portion of the non-domestic smart metering mandate). This indicates that any uplift in attitudes from the Programme's survey is largely driven by the inclusion of non-microbusinesses rather than it being a consequence of using a different methodology. We propose that using a sample that includes non-microbusinesses (weighted to their frequency in the population) is more representative for the reasons set out above.

205. Equally, we do not accept the general argument that surveys are not a robust enough method to estimate non-domestic consumer attitudes, or that our survey overestimates positive customer attitudes or consumer demand by design. Firstly, our surveys reached 700 – 800 energy decision makers within small organisations in each wave with a mix of those that use brokers and those that do not and where a quarter of the sample said they

[33] Non-domestic smart meter consumer segmentation (February 2023)

[34] The SEGB Tracker includes those who are aware and unaware of smart meters for businesses, and only collects attitude breakdowns for those who are already aware. To compare with the Programme's survey, we adjusted the SEGB Microbusiness Tracker to distribute the 'unaware' population (36%) in proportion with seek/accept/indifferent/reject rates from the wider sample. This was to ensure a like-for-like comparison between the two surveys, as the Quadrangle survey obtains attitude breakdowns for the whole sample (by providing some information about smart metering to unaware non-domestic consumers as part of the survey process), whereas the SEGB Tracker only collects attitude breakdowns for the "aware" portion of its sample.

were unlikely to take up smart meters in the next six months. We maintain that the attitude of the energy decision maker is the best proxy for understanding the likelihood of an organisation to take up smart metering; it is standard within energy research to use the energy decision maker as a proxy for the organisation's approach to energy-related decisions.

206. We have also conducted some further analysis of the attitudes of survey respondents that use brokers compared to those that do not (see Annex B: Analytical evidence for more details) to inform our response. This analysis shows that:

- Organisations that use brokers or say they are critical to their energy decisions have more positive attitudes to smart meters than those that do not. Therefore, whilst there may be some operational factors which make these organisations harder to reach, once they have been reached they are more likely to accept smart meters.

- Whilst the attitudes of those that do not use a broker are more negative overall, around half of them still said they would seek or accept a smart meter in the next six months. This suggests there is still significant demand to be fulfilled amongst customers where broker considerations are not relevant.

207. For these reasons, we do not propose that it is appropriate to factor in additional modelling assumptions relating to broker usage or customer contact within our model, as a) it is not clear in what direction (e.g. easier or harder conversion) we would amend the model and b) it is not clear why 'one' customer journey factor should be chosen over others. In addition, we maintain that it is energy suppliers' responsibilities to ensure they have good data on their non-domestic customers even where that customer may use a broker. Good customer data was also noted in Ofgem's open letter to suppliers regarding their smart meter rollout as important for driving the non-domestic rollout.[35] As industry transitions to net zero, basic customer contact details and details of roles within organisations are likely to be useful for a range of reasons, not just related to smart metering.

208. Regarding applying attitudinal propensities from the domestic Recontact survey to the non-domestic sector, we outline in Annex B: Analytical evidence why we propose that the current methodology is the best way to estimate non-domestic conversion with the data available. For example, we outline why it is reasonable to assume that the extent to which consumers in the 'seek' or 'accept' attitude groups are more easily converted than consumers in the 'indifferent' and 'unlikely' groups is the same as in the domestic sector. We also set out why it is not realistic (in the context of conducting research with small businesses) or proportionate (for the reasons set out) to collect non-domestic recontact data. Calibrating conversion rates to non-domestic installation rates also ensures that the

[35] Ofgem, Smart Meter Rollout: Open letter on Energy Suppliers' Delivery of the Rollout and Regulatory Obligations (April 2023)

diversity of the sector (which will have impacted historic installation rates) is reflected in the approach and ensures a high degree of prudence in this part of the model.

209. In relation to the transition to 4G communications hubs, we consider it would be inappropriate to adapt our modelling approach on the basis of speculation about the possible impact of public awareness of 4G meters becoming available, as suggested by one respondent. Consumers who have a smart meter installed in Year 3 (2024) and Year 4 (2025) will be able to receive the benefits of smart technology for longer than if they were to retain a traditional meter during those years and we do not expect consumers to be significantly disadvantaged by the requirement for a follow up 4G communications hub swap out visit.

Technical eligibility

210. In our consultation document we proposed to continue to use the Joint Industry Plan as the basis for our non-domestic technical eligibility series. We did so on the basis that it gives us a market-wide, industry-backed view on technical eligibility agreed by a range of partners. The long-standing and regularly reviewed milestones consist of technical developments that are valid for both the domestic and non-domestic sectors. Therefore, it is our view that an eligibility series based on the JIP accounts for market-wide factors that are applicable to non-domestic rollout modelling. **On this basis and, in line with our decision for the domestic modelling, we consider this remains the most accurate way of calculating non-domestic eligibility and we are proceeding with an eligibility assumption of 99.3%.**

211. We note the claims made by some respondents that they consider eligibility within their own portfolios to be lower. However, as set out in paragraph 177 above, we consider the JIP to be a more comprehensive and robust source of evidence for a market-wide eligibility assumption than individual supplier data. It remains our position that suppliers have had adequate time to upgrade IT platforms or systems, procure meter variants and put in place strategies for dealing with different segments of their customer bases.

Operational fulfilment

212. The non-domestic rollout modelling included an operational improvement metric on the same basis as that included in the domestic modelling (see paragraphs 179 – 181 above). For Year 3 (2024) and Year 4 (2025), in line with the equivalent domestic assumption, we based our assumption for what level of operational improvement was possible on trends observed in the failure rates data provided to the Programme by energy suppliers. On the basis of this evidence, we considered there was a clear scope for non-domestic suppliers to continue to improve their operational performance.

213. Across sectors, respondents argued that operational fulfilment may become more difficult over the second half of the Framework, as improvements have been made earlier in the Framework. As in the domestic sector, we accept that there is additional uncertainty

associated with the level of improvement that will be possible as we reach the later stages of the Framework. **We have therefore also removed this standalone improvement metric from the non-domestic modelling.** This has the effect of lowering conversion expected in Year 3 (2024) and Year 4 (2025).

214. However, as in the domestic sector, the removal of a standalone metric in the model does not negate the clear scope for improvements to non-domestic operational fulfilment by energy suppliers in Year 3 (2024) and Year 4 (2025). Evidence of non-domestic completion rates continues to show large differences between the best and worst performing suppliers. This variability is seen in both pre-appointment day cancellations and on the day installation failures, with some failure rates remaining unacceptably high for delivering a good non-domestic customer experience. We also qualitatively assess supplier performance against a range of delivery criteria relevant to driving the non-domestic rollout forward. Whilst there is evidence of good practice in nearly all areas of delivery, individual suppliers have strengths and weaknesses across the criteria, and at a market-wide level no energy supplier is universally excelling. We therefore expect suppliers to make operational improvements throughout the latter part of the Framework, which will support them to reach their specific non-domestic installation requirements in Year 3 (2024) and Year 4 (2025).

Operational capacity

215. As in the domestic sector, the ICM is designed to ensure that non-domestic installation requirements do not exceed the market's capacity to meet demand. The non-domestic ICM is used to calculate the non-domestic tolerance level and is therefore specific to the sector. This reflects the fact that non-domestic installation capacity may differ from domestic, for example installations may require additional specialisms and skillsets (such as managing 'hot shoes', meter variants or meter access challenges associated with non-domestic premises). Most non-domestic only suppliers and some mixed portfolio suppliers utilise Meter Operator Providers (MOPs) to carry out non-domestic installations. Some MOPs specialise in non-domestic installations, whereas others train their staff to work across both sectors.

216. In the consultation document, we proposed a new methodology to calculate the non-domestic ICM in Year 3 (2024) and Year 4 (2025). We proposed 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 was then multiplied by the number of working days in a six-month period. The result was an ICM of 132k per six-month period. We considered this new methodology better represented the capacity that the non-domestic sector could reach once incentivised by separate non-domestic installation targets for mixed portfolio suppliers (see Section One above).

217. **Following consideration of the evidence presented in response to the consultation, we are now reverting to the previous approach to calculating the non-**

domestic ICM. We accept that suppliers have presented new arguments which call into question the validity of some of the assumptions needed to calculate non-domestic capacity using a 'bottom-up' methodology. For example, that there are challenges in quantifying the number of non-domestic installations per day or the number of installers dedicated to non-domestic in the way we had proposed. We are therefore reverting to the previous methodology and assumption of non-domestic installation capacity of 110k per six-month period. This reflects the suggestion made in the Energy Suppliers' Report that we should return to the previous ICM used. In line with the approach taken in domestic modelling, we have validated this assumption using data from 2022 to ensure the non-domestic ICM reflects the latest evidence. Further details are provided in Annex B: Analytical evidence. We consider that the revised ICM figure, by being based in past installation performance, ensures that our measure of capacity takes account of the factors raised by respondents (such as job times, installer skillsets and types of sites) as these will all have interacted to influence past market-wide non-domestic installation rates (though likely at different rates for each individual supplier).

218. In the non-domestic rollout model, the revised lower ICM binds in all of Year 3 (2024). This is because the model projects that consumer demand is maintained above the level of the ICM in this period. The amendment made to return to the previous ICM methodology therefore has the result of reducing the number of installations that we expect to take place in non-domestic premises in Year 3 (2024).

219. We note one respondent's concern that smaller non-domestic suppliers are less able to contract the workforce required to meet their annual installation requirements. The Targets Framework already ensures that the installation obligation is proportionate to a supplier's size, as the annual target is based on each supplier's own portfolio. Smaller suppliers have a smaller target that reflects their specific circumstances. The Targets Framework provides suppliers with timely awareness of their annual installation requirements, and we consider it provides sufficient notice for all energy suppliers to make the necessary contractual arrangements to fulfil their obligations.

220. As in the domestic sector, and as noted in paragraph 118, we do not anticipate suppliers beginning 4G swap-outs at scale before the end of the Targets Framework and therefore do not expect the 4G transition to limit installation capacity in Year 3 (2024) and Year 4 (2025).

Advanced Meters

221. We note the proposal made by one respondent regarding amending Licence Conditions to allow AMR installations to count against annual targets under additional circumstances. We acknowledge that gas-first SMETS2 installations come with a range of additional technical complexities that are not present for dual fuel installations or single-fuel electricity installations. We accept that this has led to a lower installation success rate for gas-first SMETS2 installations in the non-domestic sector and consequently some customers are experiencing poor appointment outcomes. We also understand and accept that in certain

circumstances for non-domestic customers, there are scenarios where it has not been technically possible to install a SMETS2 gas meter, and in these cases, it is more beneficial to both the customer and supplier to install a functioning AMR gas meter than have the customer not receive any upgrade at all and continue to be served via traditional metering.

222. Whilst suppliers may be able to install AMR in these scenarios (once they have first attempted and failed to install SMETS meters) under the New and Replacement Obligation, currently such AMR meters would not meet the definition of a Qualifying Metering System for the purpose of meeting smart metering installation targets in sections 39A and 33A of energy supply Standard Licence Conditions. **In response to this suggestion, we therefore agree to amending licence conditions to align these two sections, so that AMRs installed in microbusinesses (or non-microbusinesses that initially chose SMETS2 meters), after all reasonable steps have first been taken to install SMETS meters, are accepted as a valid installation contributing towards suppliers' annual non-domestic targets for Year 3 (2024) and Year 4 (2025) of the Framework.** This will help to ensure a positive customer outcome, where there are technical barriers to installing SMETS meters. We consider this an important amendment to introduce for Year 3 (2024) and Year 4 (2025) of the Framework specifically, where we anticipate gas-first SMETS2 installations increasing in number due to the prioritisation by some suppliers of dual fuel customers in Year 1 (2024) and Year 2 (2025) and as there become fewer non-domestic sites available to convert.

223. This change will ensure a positive customer journey for non-domestic customers and assist suppliers by providing additional technical flexibility to ensure a successful installation. In combination with the additional installation 'credit' received for completing a SMETS2 gas-first installation, per paragraphs 121 – 132, we consider this provides suppliers with sufficient incentive to improve their operational performance and fulfilment in delivering gas-first SMETS2 installations, whilst permitting additional technical flexibility through AMR to count against suppliers' annual targets. It should be noted for clarification, that this amendment does not affect the Advanced Meter Consumer Choice Policy itself and that the types of meter that suppliers can offer to each non-domestic consumer group (microbusinesses and non-microbusinesses) remains as at present.[36] We will continue to collect statistics on the installations of SMETS2 and advanced meters by fuel type across these consumer groups to monitor the effect of this amendment.

[36] In so much as microbusiness energy customers must be offered SMETS metering by default. Non-microbusiness energy customers can be offered a choice of SMETS and advanced meter, but the choice must include SMETS.

Question 8

Summary of responses to Question 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?

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
1	7	0	0	8	2	18

224. Respondents were broadly split on Question 8. Of the 18 responses: eight disagreed, seven agreed with caveats and one agreed. The remaining two did not respond. Some respondents used this question to make broader criticisms of the Framework as summarised below.

225. Some respondents provided estimates of what they expect smart meter coverage to reach at the end of the of the Framework given current trends. These were made across responses to particular questions but for ease of reference are summarised here. These ranged from 60% to 65% in the non-domestic sector and 65% – 75% in the domestic sector.

226. One supplier (citing the 2018 National Audit Office report on the Smart Metering Implementation Programme) questioned why 2025 is the end of the Framework, as the benefits of smart metering are long term. A counterview was made by one respondent, who said that they would prefer higher levels of ambition. One supplier noted that they would like confirmation on the timing of the end point of the rollout. One supplier used this question to raise what they considered to be the limitations of a voluntary consumer led rollout.

227. Regarding specific suggestions relating to our methodology, respondents tended to propose revising downward particular inputs as summarised at Questions 3, 6, and 7. To avoid repetition we only summarise and respond to points here that have not been addressed under previous questions.

228. Some respondents used this question to make suggestions relating to the assumptions within our rollout modelling. One supplier noted that they expected demand would be higher in Year 2 (2023) than in Year 1 (2022), due to the energy crisis abating. One supplier raised Year 1 (2022) Q4 having relatively fewer than modelled smart meter installations due to the Christmas period.

229. One respondent used this question to detail a proposal for collaboration amongst suppliers and the government regarding training installers, to overcome a reluctance for suppliers to pursue unilateral training programmes. They proposed a 'Central Delivery Fund' approach, whereby suppliers would benefit from centralised procurement of a shared pool of installers that would operate across Great Britain. They suggested that this approach would benefit from economies of scale and would overcome the majority of the resourcing issues being experienced by industry.

230. One respondent suggested measures to encourage the installation of smart meters in non-smart mode for later potential self-activation by consumers and suggested that this category of installation of meters should be reflected in official rollout statistics.

Government response to Question 8

231. Where respondents used this question to raise concerns related to the assumptions used in the rollout model, we have addressed these in our responses to Questions 3 – 7 above.

232. Respondents also made additional suggestions for how our modelling approach for Year 3 (2024) and Year 4 (2025) could be amended:

- **Seasonality factors:** One respondent raised a concern that seasonality factors are not adequately accounted for in the rollout modelling. We do not agree that amendments are required to account for seasonality, as we consider this is already accounted for in the rollout modelling. Annual data is used, where available, throughout the model and we have explicitly accounted for seasonality when projecting the number of installations we estimate to occur in Year 2. The domestic and non-domestic ICM calculations are also adjusted to take account of seasonal public holidays when they are scaled up to 6 months. Tolerance levels are calculated on an annual basis and applied for the full year, not quarterly, so seasonal factors are averaged out across the 12-month period.
- **Non-commissioned meters:** One respondent suggested that our methodology should be amended to allow for smart meters to be installed but not commissioned, if, for example, customers did not wish to receive a meter operating in smart mode. The licence obligations that underpin the Targets Framework are already based on meters installed, rather than meters commissioned. However, the government does not support the installation of smart meters in non-smart mode, as this deprives the consumer of the benefits of a functional smart meter and contradicts the Operational Requirement in licence condition that obligates suppliers to take all reasonable steps to commission those smart meters for which they are responsible.[37]

233. One respondent requested clarity on the smart metering regulatory framework after the end of the Targets Framework in 2025. It is important to note that energy suppliers already have an enduring obligation to take all reasonable steps to install a smart meter when

[37] Gas Supply Standard Licence Condition 43.4 and Electricity Supply Standard Licence Condition 49.4

making new connections or replacing a meter (the 'New and Replacement Obligation'). As noted in the consultation document, government will be considering in 2023 and 2024 whether the licence conditions for smart 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.

234. We agree with those respondents that called for ambitious targets for the remainder of the Framework, to ensure that we meet the highest levels of smart coverage by the end of 2025. We consider that the tolerance levels now being set will maintain a high degree of ambition, whilst ensuring the minimum installation requirements are realistic across industry. The high levels of installation coverage projected to be reached by 2025 will unlock further benefits, realising the ambitions of the smart meter rollout. In addition, the smart installation coverage projections set out in this response do not represent a cap on government ambition for the rollout. Energy suppliers can go beyond their minimum installation requirements and government is continuing to work with industry to support delivery of the smart meter rollout and maximisation of the benefits of an enduring smart metering system.

235. Some respondents suggested that the government should consider a shared delivery model for the installer workforce. The Programme continues to engage with industry to support energy suppliers to identify resource gaps and increase installation field force, including by exploring opportunities to share installer resource. For example, as noted in paragraph 118, in Autumn 2022 the Programme supported a resource sharing initiative for industry, which included identifying opportunities to share installation capacity. We consider government support is best delivered through such initiatives, which enable suppliers to make commercial arrangements that are best suited to the business models and resource needs of the parties involved, rather than through centralised procurement of resources.

236. On the basis of the position set out above, we are now confirming that we will continue to use our rollout projections as the basis for calculating the Year 3 (2024) and Year 4 (2025) tolerance levels. These rollout projections have been amended as set out in our response to Questions 3 – 7 above. Tolerance levels will continue to be calculated as the difference between the estimated minimum industry-wide smart coverage and a straight line drawn from the starting point (market average smart coverage at the beginning of the Framework) to 100% (market-wide coverage) at the end of the Framework.

237. **Table 3** below confirms the tolerance levels for Year 3 (2024) and Year 4 (2025) of the Targets Framework, following this methodology and the amendments to the rollout modelling outlined above.

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

Rollout	Position at year end	Year 3 (December 2024)	Year 4 (December 2025)
Domestic	Target (straight line to 100%)	80.8%	100.0%
	Minimum smart coverage	69.1%	74.5%
	TOLERANCE	**11.7%**	**25.5%**
Non-domestic	Target (straight line to 100%)	78.5%	100.0%
	Minimum smart coverage	63.6%	68.7%
	TOLERANCE	**14.9%**	**31.3%**

238. As set out in the consultation document, the percentage tolerance levels will be applied to individual suppliers in each year, subtracting them from each supplier's line to 100% smart coverage to calculate their annual installation requirement.

The tolerance levels in the formula to calculate annual targets for Year 3 (2024) and Year 4 (2025)

239. 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 $DOMT_3$, $DEST_3$, $DOMT_4$ and $DEST_4$ 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.

240. On the basis of the tolerance levels confirmed in **Table 3** above, we can confirm that the calculations of $DOMT_3$ and $DEST_3$, for Third Rollout Year (2024) and $DOMT_4$ and $DEST_4$ for the Fourth Rollout Year (2025) for the purposes of Electricity Supply Standard Licence Condition 39A and Gas Supply Standard Licence Condition 33A are as set out in **Table 4** below.

Table 4: Value of $DOMT_3$, $DEST_3$, $DOMT_4$ and $DEST_4$, for Year 3 (2024) and Year 4 (2025) of the Targets Framework[38]

DOMESTIC ROLLOUT
The value of $DOMT_3$ for the Third Rollout Year shall be equal to **$0.117*DOMMS_3$**
The value of $DOMT_4$ for the Fourth Rollout Year shall be equal to **$0.255*DOMMS_y$**
Where:
For the purposes of Standard Condition 33A of gas supply licences.   *$DOMMS_3$ 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 Third Rollout Year.*   *$DOMMS_4$ 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 Fourth Rollout Year.*
For the purposes of Standard Condition 39A of electricity supply licences.   *$DOMMS_3$ 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 Third Rollout Year.*   *$DOMMS_4$ 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 Fourth Rollout Year.*
NON-DOMESTIC ROLLOUT
The value of $DEST_3$ for the Third Rollout Year shall be equal to **$0.149*DESMS_3$**
The value of $DEST_4$ for the Fourth Rollout Year shall be equal to **$0.313*DESMS_4$**
Where:
For the purposes of Standard Condition 33A of gas supply licences.   *$DESMS_3$ 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 Third Rollout Year.*   *$DESMS_4$ 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 Fourth Rollout Year.*
For the purposes of Standard Condition 39A of electricity supply licences.

[38] In this table, "Domestic Premises", Relevant Gas Supplier", "Third Rollout Year", "Fourth Rollout Year", "Relevant Electricity Supplier" and "Designated Premises" have the same meaning as in standard condition 33A of gas supply licences or standard condition 39A of electricity supply licences, as the case may be.

$DESMS_3$ 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 Third Rollout Year.

$DESMS_4$ 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 Fourth Rollout Year.

241. We have used the rollout model and consultation responses to enable us to set installation requirements for Year 3 (2024) and Year 4 (2025) that, as at the date of this government response, we consider are ambitious and realistic to require suppliers to meet. The model we have used to calculate tolerance levels does not account for or predict all of the specific circumstances and events that each individual supplier may face in the rollout of smart meters to their customers. We recognise that the installation requirements for Year 3 (2024) and Year 4 (2025) are likely to be challenging for some suppliers, and we are aware of the number of suppliers that missed one or both of their Year 1 (2022) installation requirements. We note that some of the difficulties faced by suppliers, or that they may face in the second half of the Framework, have been described in the consultation responses. Although these difficulties can be due to matters which are wholly or partly outside individual suppliers' control, we expect suppliers to do what they can to mitigate and prepare for these challenges. The rollout of smart meters is a government priority. Where necessary, we expect suppliers to allocate appropriate resources, increase their efforts and improve their practices, in order to meet their smart meter installation requirements.

242. The rollout model operates at a market-wide level, and produces domestic tolerance levels which are the same for all domestic (and mixed portfolio) suppliers, and a separate non-domestic tolerance level which is the same for all non-domestic (and mixed portfolio) suppliers. The tolerance levels are not adjusted for each individual supplier, for example, to reflect the particular attitudinal or technical eligibility profile of the supplier's own customers. In the 2019 consultation on the policy framework, we acknowledged there will be delivery challenges and external factors, some common among energy suppliers and other specific to each individual energy supplier and their operating model.[39] The tolerance levels were therefore introduced to provide energy suppliers with some additional flexibility in delivering market-wide rollout. The principal rationale for applying market-wide tolerance levels is that we consider all suppliers should be converging towards high levels of smart meter coverage as soon as possible and should be subject to the same domestic or non-domestic smart meter regulatory requirements. This universal approach seeks to ensure that all energy consumers are included in the rollout no matter who their energy supplier happens to be, and aims to put all energy suppliers on a common track to high levels of smart meter coverage. This universal approach is therefore important to help support the government's commitment to reaching the levels of smart coverage necessary to unlock the benefits of a more flexible energy system.

[39] Delivering a smart system: a Smart Meter Policy Framework post-2020 (September 2019)

243. The tolerance levels set out in **Table 3** above will apply in Year 3 (2024) and Year 4 (2025). This is in accordance with the decision set out in 2021 that there would be a single planned review point for the tolerance levels set under the Targets Framework.[40] There will be no further planned review of tolerance levels before the end of the Framework at the end of 2025. When we confirmed the tolerance levels for Year 1 (2022) and Year 2 (2023), we noted that if exceptional events were to occur that have a significant and negative market-wide impact on the rollout, we would consider whether to carry out a review of tolerance levels. We continue to appreciate the need for the Framework to be responsive. Therefore, we can confirm that if exceptional market-wide events or trends were to occur and be sustained that negatively impact installations, we will consider whether to carry out a review of the tolerance levels. This could include consulting on adjustments for Year 3 (2024) and/or Year 4 (2025). In relation to circumstances affecting individual energy suppliers, Ofgem are responsible for monitoring and enforcing energy suppliers' obligations under the Framework. Ofgem will make enforcement decisions, taking account of the criteria as set out in their Enforcement Guidelines.[41]

[40] Smart meter policy framework post 2020: minimum annual targets and reporting thresholds for energy suppliers (June 2021)
[41] Ofgem, The Enforcement Guidelines, March 2023

Section Two – Conclusion

DECISION 2: The Programme will continue to use consumer acceptance, technical eligibility, operational fulfilment and installation capacity as the four main drivers of the rollout model.

DECISION 3: The government confirms that we will make amendments to the assumptions used to project the domestic and non-domestic rollouts to reflect feedback received to the consultation. Amendments will be made to our assumptions for the Year 3 (2024) starting point, consumer acceptance, operational fulfilment and installation capacity. The result of these amendments is to reduce the smart coverage that we expect to reach in Year 3 (2024) and Year 4 (2025) in both the domestic and non-domestic sectors.

DECISION 4: Tolerance levels for Year 3 (2024) and Year 4 (2025) will continue to be calculated as the difference between a market-wide trajectory to 100% smart coverage and our rollout projections. Domestic and non-domestic rollout projections will continue to be calculated separately, using distinct sector-based assumptions.

DECISION 5: The government confirms the value of the tolerance levels as follows:

Domestic Rollout: Year 3 (2024) = 11.7%; Year 4 (2025) = 25.5%

Non-Domestic Rollout: Year 3 (2024) = 14.9%; Year 4 (2025) = 31.3%

These values will be applied to the formulae set in **Table 4** of this document to calculate the tolerance allowance for Year 3 (2024) and Year 4 (2025). This allowance will feed into the calculation of annual minimum installation requirements using the formula confirmed in the licence conditions 33A and 39A.

DECISION 6: The government confirms that we will implement two adjustments to licence conditions to mitigate the impact of the additional complexities associated with some gas smart meter installations. We will introduce an amendment to apply an additional weighting to ‘gas-first SMETS2’ smart meter installations to ensure that suppliers are not disproportionately penalised as a result of having to conduct such installations. We will also make a technical change to licence conditions to align the Targets Framework with other obligations in relation to advanced meters in the New and Replacement Obligation.

DECISION 7: If exceptional market-wide events or trends were to occur and be sustained that negatively impact installations, the government will consider whether to carry out a review of the tolerance levels which could include consulting on adjustments for Year 3 (2024) and/or Year 4 (2025) of the Framework.

Section Three – partial extension of the 'churn adjustment'

Question 9

Summary of responses to Question 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?

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
1	1	2	1	6	7	18

244. Respondents to this question were split between disagreement (including one 'disagree with caveats') and no response. The focus of responses tended to vary depending on whether the respondent was a domestic only, non-domestic only or mixed portfolio supplier. The mixed portfolio energy suppliers tended to disagree.

245. Two respondents agreed with caveats. No respondents commented on the specific methodology of the adjustment proposed. Some respondents that disagreed did so on the basis that convergence in smart meter coverage between suppliers would not reach the level expected and so the potential for unfairness for those suppliers with higher smart coverage as a result of customer switching would remain. The reasons provided for convergence being lower that assumed included suppliers not meeting the level of installations required under the Framework, and greater progress and investment by some suppliers compared to their competitors.

246. One domestic only and one mixed portfolio supplier argued that the churn adjustment should be extended for Year 3 (2024) and Year 4 (2025) of the Framework for the domestic sector.

247. Some respondents noted that market conditions remained volatile, with considerable uncertainty about future patterns in customer switching. They argued that this made it difficult to say conclusively that churn would not impact supplier targets and so the adjustment should be retained as protection against this.

Government response to Question 9

248. This question has been considered alongside Question 10. Please see our response in paragraphs 252 – 261 below.

Question 10

Summary of responses to Question 10

Do you agree with our proposed approach for adjusting for churn in relation to non-domestic installation requirements in Year 3?

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
2	7	0	3	0	6	18

249. The majority of respondents that answered this question agreed with caveats. Some respondents believed that the churn adjustment should apply to both sectors for Year 3 (2024) and Year 4 (2025). Some of the seven respondents who agreed with caveats argued that the churn adjustment in the non-domestic sector should be extended to Year 4 (2025). Some respondents disagreed with caveats.

250. The other respondents that 'agreed with caveats' to questions 9 or 10 felt that there should be a review at a later date, either the end of 2023, early 2024 or on an ongoing basis as market circumstances changed, to determine whether further extensions of the domestic churn adjustment were needed.

251. Factors suggested for consideration in this review included: whether smart coverage was converging as expected and whether market circumstances and patterns of customer switching had resulted in churn having a greater than expected impact.

Government response to Question 9 and 10

252. The 'churn adjustment' was introduced to mitigate the impact of customers switching energy supplier on energy suppliers' minimum installation requirements. In introducing the amendment to target setting in Year 2 (2023), we recognised that in a market in which there was considerable variation in smart coverage between suppliers, suppliers that were further ahead of market average would be more likely to lose more smart meter customers than they gain (negative smart churn) and gain more traditional meter customers than they lose (positive traditional churn). By changing the composition of their portfolio, this would result

in higher targets for that supplier in the following year. The churn adjustment was implemented for Year 2 (2023) targets to offset this potential impact and thereby mitigate potential unfairness.

253. The decision to implement a churn adjustment was, therefore, grounded in the level of variation in smart coverage between energy suppliers. It is the difference between an individual supplier's smart coverage and the market average smart coverage that defines whether they are more or less likely to experience negative smart churn/positive traditional churn. As the market average level of smart coverage increases, and as most suppliers have a level of smart coverage in their portfolio that is in line with market average, the potential for material unfairness as a result of churn decreases. The decision to implement the churn adjustment across the market in Year 2 (2023) reflected the progress of the smart meter rollout at that point and the differing levels of smart coverage between suppliers.

254. It is an objective and a function of the Targets Framework that it leads to convergence in smart coverage levels among energy suppliers. 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 proportionately 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 line with similar smart coverage levels over time.

255. As part of the Mid-Point Review, we considered the level of convergence in smart meter coverage in the domestic and non-domestic markets. We concluded that the domestic sector has reached such a level of convergence that the potential for unfairness as a result of customer switching was no longer material. Therefore, we proposed no further adjustment for churn in relation to domestic targets. In the non-domestic sector, the level of convergence between energy suppliers is currently lower. On this basis we proposed to apply the churn adjustment in relation to non-domestic targets for a further year, so that it would apply to Year 3 (2024) targets (thereby adjusting for churn in 2023). Evidence suggested that convergence will reach a level over the latter part of the Framework where the potential for unfairness in the non-domestic sector reduces to the extent that it is no longer material to Year 4 (2025) targets. We therefore proposed that no further extension of the churn adjustment was required for that year.

256. **Noting the support for applying the churn adjustment to the non-domestic sector in Year 3 (2024), we are now confirming that we will proceed with this partial extension of the churn adjustment.** No concerns were raised to our proposal to apply the same adjustment to non-domestic targets in Year 3 (2024) as has applied to the whole market in Year 2 (2022). We will therefore apply the current adjustment, meaning that an energy supplier's non-domestic targets in Year 3 (2024) will be defined as the minimum of:

i) their targets with the churn adjustment applied; and ii) their targets without the churn adjustment applied.

257. We do not agree with those respondents that called for an extension of the churn adjustment beyond that proposed in the consultation. **We can therefore confirm that we will not be making any extension of the churn adjustment for domestic targets, or for non-domestic targets in Year 4 (2025).**

258. We expect the level of variation for both domestic and non-domestic suppliers to reduce as the rollout progresses. For domestic suppliers, our updated evidence shows a high degree of convergence in smart coverage between suppliers. Our conclusion that the churn adjustment is not required in the domestic sector in the second half of the Framework, is, therefore, based on the current level of smart meter coverage across the domestic market. We consider this is a valid conclusion drawn on the basis of up-to-date evidence. Further detail of the evidence considered is set out in Annex B: Analytical evidence.

259. The introduction of separate non-domestic installation requirements (see Section One) can be expected to lead to more consistent progress in the non-domestic sector, in line with installation requirements in Year 3 (2024) and Year 4 (2025). Our conclusion that the churn adjustment will no longer be required in the non-domestic sector for Year 4 (2025) targets has been made on the basis of an analysis of the projected trend in convergence in the non-domestic sector in latter part of the Targets Framework. This projection has been modelled using current data on smart coverage levels across suppliers, along with an estimate of the coverage that will be reached derived from individual supplier installation requirements in Year 3 (2024) and Year 4 (2025). We consider it remains reasonable to base our estimates of convergence in smart meter coverage across the market on suppliers meeting their installation requirements in Year 3 (2024) and Year 4 (2025). We have outlined a number of decisions throughout this document (including amendments to modelling assumptions and adjustments to licence conditions to mitigate the impact of the additional complexities associated with some gas smart meter installations) that will support suppliers to meet their minimum non-domestic installation requirements, therefore driving the predicted levels of market convergence. As set out in paragraph 138 above, installation requirements are a regulatory obligation and suppliers are required under licence conditions to meet them. We consider it remains reasonable to anticipate the non-domestic sector reaching closer convergence on both gas and electricity over the course of 2024 and, on this basis, it is reasonable and proportionate to apply the churn adjustment to non-domestic targets in Year 3 (2024) only.

260. We note some respondents concerns that customer churn can have a larger impact and be more unpredictable in the non-domestic sector. However, we consider that this is accounted for by the decision to extend the churn adjustment in relation to non-domestic targets in Year 3 (2024). As levels of non-domestic smart coverage increase in Year 3 (2024), the impact of churn on supplier installation requirements in Year 4 (2025) will reduce as more of the customers switching will already have smart meters. We do not,

therefore, consider that this feature of the non-domestic sector necessitates a further extension of the churn adjustment to non-domestic targets in Year 4 (2025).

261. We do not agree with those respondents that suggested we should commit to further review the decision in relation to a churn adjustment in the latter part of the Targets Framework. As noted above, the key consideration for whether the churn adjustment is required is variation in smart coverage between suppliers, not levels of churn in the market. It would not, therefore, be necessary to review the decision if patterns of switching in the market change. As set out in paragraphs 258 – 259 above, we consider that our decision has been made on the basis of the most relevant and recent evidence and, in relation to the non-domestic sector, reasonable expectations as to rollout progress in the latter half of the Framework. The intention of the churn adjustment is to mitigate a potential material unfairness that may develop as a result of churn occurring. It was not the intention of the churn adjustment to eliminate the whole impact of churn for energy suppliers. We therefore consider it is reasonable to base our decision on current evidence and reasonable estimates of future trends, rather than prolonging uncertainty for industry by committing to a further review at a later stage.

Section Three – Conclusion

DECISION 8: The government confirms that the churn adjustment will be applied to the formula used to calculate non-domestic installation targets in Year 3 of the Targets Framework (2024). An energy supplier's non-domestic installation targets in Year 3 (2024) will be defined as the minimum of: i) their targets with the churn adjustment applied; and ii) their targets without the churn adjustment applied.

DECISION 9: The government is not persuaded that any further extension of the churn adjustment beyond that set out in Decision 8 is required. On this basis, no adjustment will be made to the formula used to set domestic installation targets in Year 3 (2024) and Year 4 (2025), and no adjustment will be made to the formula used to non-domestic installation targets in Year 4 (2025).

Section Four – Legal text

Question 11

Summary of responses to Question 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?

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
5	0	5	1	1	6	18

262. The plurality of respondents did not respond to this question and five were neutral. Five agreed that the wording reflects the policy intent. One respondent added the caveat that the legal text would have to be updated to reflect views throughout the rest of the consultation if necessary. One supplier hoped that in the future the Programme would request a session with suppliers to discuss the licence condition changes.

263. One respondent disagreed and one disagreed with caveats. One respondent disagreed with the wording of the question but presented no recommendation of changes to the legal text. One respondent requested policy changes to meet the policy intent of the non-domestic targets (Section 1), including mandation in the public sector.

Government response to Question 11

264. We have considered all responses received in finalising the legal drafting that implements the policy decisions set out in Section One, Two and Three of this document. The decisions that require modifications to licence conditions are:

I. The amendment to the structure of installation requirements 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 (Section One);

II. The amendment to introduce additional credit for ‘gas-first SMETS2’ smart meter installations (Section Two);

III. The amendment to align the Targets Framework with the New and Replacement Obligation, so that advanced meters installed in microbusinesses (or non-

microbusinesses that initially chose SMETS2 meters), after all reasonable steps have first been taken to install SMETS meters, are accepted as a valid installation contributing towards suppliers' annual non-domestic targets for Year 3 (2024) and Year 4 (2025) of the Framework (Section Two); and,

IV. The amendment to partially extend the churn adjustment to apply to non-domestic installation targets in Year 3 (2024) of the Targets Framework (Section Three).

265. Amendments I. and IV. were included in the draft licence conditions that were consulted on.[42] As no concerns were raised regarding the substance of the legal drafting for these amendments, no substantive changes have been made from the version published alongside the consultation. Amendments II. and III. are being made in response to feedback received and have therefore been additionally incorporated into the amended licence conditions.

266. We do not agree with the suggestion from one respondent that we should hold further engagement sessions with energy suppliers prior to finalising the modifications to licence conditions. We have consulted on the proposed licence condition amendments and consider this has provided sufficient opportunity for relevant parties to provide feedback. The licence condition amendments reflect the policy intentions set out in this document, and these too have been subject to consultation.

267. The modifications to the Electricity and Gas Supply Standard Licence Conditions required to implement the decisions in this document will, therefore, be laid in Parliament to come into effect prior to the beginning of Year 3 of the Framework (2024). The legal drafting is published alongside this government response in Annex D: Amendments to Standard Licence Conditions.

Section Four – Conclusion

DECISION 10: The government will lay licence modifications in Parliament in Summer 2023 in line with the procedure under Section 89 of the Energy Act 2008, consisting of changes to implement the policy decisions set out in Sections One, Two and Three of this document (see Annex D: Amendments to Standard Licence Conditions).

[42] Annex C: Smart Meter Targets Framework Year 3 and Year 4 legal text (February 2023).

Annexes

Annex A: List of respondents

Annex B: Analytical evidence

Annex C: Impact Assessment

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

Annex A: List of respondents

Organisation Type	Organisations
Domestic only or mixed portfolio energy supplier	• Centrica / British Gas • EDF • EoN • Ovo Energy • Scottish Power Energy Retail • Shell Energy Retail • SO Energy • Utility Warehouse
Non-Domestic-only energy supplier	• Engie • SSE Energy Solutions • Drax Group / Opus
Trade Body	• Energy UK • The Industrial and Commercial Shippers and Suppliers (ICoSS) group
Meter Manufacturer	• Flonidan A/S • Landis & Gyr
Meter Asset Provider	• Calvin Asset Management Ltd
Delivery Partner	• Data Communications Company (DCC)
Member of the public	• Anonymous

This publication is available from: www.gov.uk/government/consultations/smart-meter-targets-framework-minimum-installation-requirements-for-year-3-2024-and-year-4-2025

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