



Smart Metering Programme

Foundation Smart Market

The Government Response to the Consultation on the
Foundation Smart Market and Further Consultation

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General information

Purpose of this consultation

This Response lays out the Government's position on two aspects of the roll-out of smart meters; how meters installed in the Foundation stage will be enrolled and adopted into the enduring arrangements; and the regulations to support smart change of supplier outcomes for meters installed during Foundation. It seeks views on the legal drafting of the proposed licence obligations and consults on further options for meeting the costs of enrolling meters.

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Consultation reference: URN13D/106

Territorial extent: This consultation applies to the gas and electricity markets in Great Britain. Responsibility for energy markets in Northern Ireland lies with the Northern Ireland Executive's Department of Enterprise, Trade and Investment.

How to respond: Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome. Responses to this consultation should be sent to smartmetering@decc.gsi.gov.uk. The consultation closes on 7 June 2013.

Responses should be clearly marked Foundation Smart Market (URN 13D/106). Responses and any enquiries related to the consultation should be addressed to:

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Confidentiality and data protection: Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. It would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

We will summarise all responses and place this summary on our website at <https://www.gov.uk/government/organisations/department-of-energy-climate-change>. This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

Quality assurance: This consultation has been carried out in accordance with the Government's Code of Practice on consultation, which can be found here: <http://www.bis.gov.uk/files/file47158.pdf>

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to: DECC Consultation Co-ordinator 3 Whitehall Place London SW1A 2AW

Email: consultation.coordinator@decc.gsi.gov.uk

1. Executive Summary

Purpose of this document

- 1.1. The Foundation Smart Market consultation of November 2012 considered issues relating to change of supplier for customers with SMETS compliant smart meters during the Foundation Stage (Smart Change of Supplier), and the enrolment and adoption of Foundation Stage ('Foundation') smart metering systems and communications into the DCC service. It sought views on options and proposals to address these issues, including potential new regulation.
- 1.2. This document:
 - summarises the consultation responses;
 - sets out the Government's conclusions on the three Smart Change Of Supplier licence conditions that were consulted upon;
 - consults on the legal drafting for these three licence conditions;
 - proposes and consults on a fourth licence condition to support Smart Change of Supplier;
 - sets out criteria and a number of conclusions in relation to the enrolment and adoption of Foundation metering systems and communications by the DCC; and
 - consults on some further options in relation to cost recovery associated with enrolment and adoption.

Smart Change of Supplier

- 1.3. The Government has concluded that it will introduce three new Supply Licence conditions to support Smart Change of Supplier:
 - i. following a change of supplier, the losing supplier of a consumer with a SMETS compliant smart metering system will be required to:
 - provide the gaining supplier with the details of the Meter Asset Provider (MAP) for the relevant smart metering equipment; and
 - provide the MAP with the identity of the gaining supplier.
 - ii. where a gaining supplier acquires a SMETS compliant smart metering system on change of supplier, it will be required to agree rental terms with the relevant MAP, within one or six months (depending on whether it has existing commercial arrangements with the MAP) or return the smart metering equipment to the MAP, within one month thereafter; and
 - iii. a supplier will be required to take all reasonable steps to install a SMETS-compliant smart metering system when it replaces a SMETS-compliant smart metering system following change of supplier.
- 1.4. The Government has given further consideration to how a positive consumer experience upon change of supplier could be further supported. This document therefore consults on a potential fourth licence condition. This would require

suppliers to continue to carry out remote meter reads when gaining a SMETS compliant metering system.

Enrolment and Adoption

- 1.5. The Government believes there are important and common benefits from the DCC being able to enrol and adopt SMETS 1 equipment, including in particular more reliably efficient and effective switching of customers with such meters. It should also reduce the risk of assets being replaced before the end of their operating lives.
- 1.6. The Government therefore believes an important task for the DCC, its service providers, and energy suppliers will be to establish a project to develop systems under which the DCC will operate SMETS 1 meters on behalf of suppliers.
- 1.7. The Government has concluded that this work should be carried forward according to a number of key principles:
 - that all significant populations of SMETS1 meters should be supported;
 - that the first generation of enrolment should be undertaken as a single exercise to minimise costs; and
 - that the costs of the system development should be spread across all users in the same manner as the development cost of the main DCC systems.
- 1.8. This Response document sets out the enrolment criteria which will be included within regulation and which, if met, should ensure that meters would be technically capable of enrolment into the DCC service.
- 1.9. The Government will continue to work with industry to define the timing and requirements for the initial systems projects to support enrolment of Foundation meters.
- 1.10. The Government is consulting further on proposals for recovery of on-going communications costs for Foundation meters.

Effect of Proposals

- 1.11. The combined package of measures confirmed and/or being consulted upon in this document is designed to:
 - facilitate the enrolment of SMETS1 metering systems installed during the Foundation Stage into the DCC;
 - provide further clarity to suppliers on the process they will need to follow to achieve timely enrolment of any meters that they have installed during the Foundation Stage. It is expected that, subject to suppliers and the DCC complying with the requirements of this process, enrolment could be achieved before or shortly after the DCC commences services;
 - increase the confidence of suppliers installing SMETS-compliant metering systems and parties funding such investments during Foundation; and
 - help ensure that consumers with smart meters that choose to switch supplier during Foundation will continue to have a positive experience and receive the benefits of smart metering.

2. Introduction

The Foundation Stage

- 2.1. The Government's vision is for every home and smaller business in Great Britain to have smart energy meters. The roll-out of smart meters will play an important role in Britain's transition to a low-carbon economy and help to meet some of the long-term challenges in ensuring an affordable, secure and sustainable energy supply.
- 2.2. Smart meters will be installed in two stages: the Foundation Stage and Mass Roll-out Stage. In the enduring smart metering market, domestic meters and some non-domestic meters will have their communications managed centrally through the DCC. However, there will be meters installed during the Foundation Stage that will be operating outside the DCC at the point at which the DCC's services become operational.

Benefits of Activity During the Foundation Stage

- 2.3. The first version of the Smart Metering Equipment Technical Specification (SMETS1) was developed to enable suppliers to deploy smart meters during Foundation if they so wish.
- 2.4. Installation of smart meters during Foundation (including SMETS1 metering systems) offers the opportunity:
 - for early engagement to build consumer confidence;
 - to realise early benefits for consumers and energy suppliers; and
 - for the industry to gain valuable learning and experience to inform its preparations for mass roll-out.
- 2.5. Foundation activity will further benefit suppliers, as smart meters installed during Foundation that comply with the SMETS will count towards their roll-out obligations.

Foundation Savings and Costs

- 2.6. In addition to the wider benefits of Foundation activity, there are both costs and savings from the installation of SMETS1 metering systems in the Foundation stage. The relative balance of these is dependent on the number of meters installed during the Foundation Stage. Energy suppliers' deployments of SMETS1 metering systems will depend upon on their views of the commercial opportunities and risks involved.
- 2.7. Potential benefits from deploying meters during Foundation include:
 - benefits to consumers and cost savings to energy suppliers are brought forward;
 - energy suppliers are not required to visit premises twice before the end of mass roll-out where targeted installations of SMETS1 metering systems

have taken place, for example where traditional meters have reached the end of their asset life;

- installing smart meters during Foundation helps energy suppliers to smooth their roll-out profiles over a longer period. There are risks and additional costs associated with higher peak installation rates, and these can be slightly reduced by increasing meter deployments in Foundation; and
- more efficient delivery of mass roll-out through application, by energy suppliers, of experience from Foundation.

2.8. Potential costs and risks from deploying meters during Foundation, which decisions set out in this document seek to mitigate, include:

- installation and asset costs from the roll-out are brought forward;
- an increase in the overall cost of data and communications for the GB smart metering arrangements. This is because the costs of setting up the communications link to that meter will be additional to the fixed costs needed to set up the DCC national communications network;
- a risk that, upon customer switching, the gaining supplier prefers to use its own meter and therefore strands the SMETS1 metering system; and
- upon customer switching, the gaining supplier might decide to operate the SMETS1 meter as a dumb meter until the DCC enrolls the meter after DCC go-live. As a result, cost savings to energy suppliers and certain consumer benefits (e.g. avoided manual meter reads) are not realised during that period.

Objectives

2.9. The Government's objectives for the Foundation Stage include:

- consumers have a positive experience (including those that change supplier);
- the organisations funding Foundation meters have appropriate economic and commercial incentives to support market development; and
- meters and communications arrangements can be easily transferred on change of supplier and are appropriate to enable management by the DCC at a later date.

2.10. The Government's objectives for the Foundation Stage will be furthered by protecting the benefits and savings of Foundation installations, and minimising any associated costs. This will be supported by minimising the risk of:

- asset stranding; and
- suppliers being unable to enrol some meters into the DCC.

Foundation Policy Development and Further Consultation

2.11. The Foundation Smart Market consultation of November 2012 sought views on two sets of regulations intended to address the risks outlined above, specifically to:

- address operational and commercial failures and risks when there is a change of supplier involving a smart meter, including rents for smart meters

- not being secured, removal of SMETS compliant metering systems, and negative impacts on the consumer experience; and
 - define the process for SMETS1 metering systems to be enrolled into the DCC, and the manner in which the DCC's costs associated with enrolment should be allocated to DCC users.
- 2.12. This document is the Government's response to the November consultation. As well as taking account of respondents' views, this document also reflects further analysis that has been undertaken and information received since the consultation was published. In particular:
- further analysis has been undertaken on the costs of enrolling meters based on information provided by DCC licence applicants and potential DSP/CSP contractors; and
 - the Government has announced a change to the timing of the availability of the DCC's services.
- 2.13. The three licence conditions that were consulted upon in relation to Smart Change of Supplier focused on improving the operational and commercial arrangements between suppliers and MAPs. In view of the consultation responses, the Government has considered the manner in which a positive consumer experience upon change of supplier and related consumer benefits could be supported. This document therefore consults on a potential additional licence condition that would oblige a supplier to maintain a minimum level of smart services when it gains a smart meter.
- 2.14. On the basis of the further analysis undertaken on the costs of enrolling meters, the Government has decided to consult on additional proposals for the allocation of the incremental on-going costs that are incurred in enrolling SMETS1 metering systems.

3. Smart Change of Supplier

Introduction and Consultation Proposals

Background

- 3.1. Some energy suppliers are pursuing a strategy of installation of substantial numbers of SMETS1 compliant metering systems during Foundation whereas others are not. Not all suppliers yet have the capability to operate SMETS1 metering systems in smart mode. This has a number of consequences when a consumer with a SMETS1 metering system changes supplier:
 - the gaining supplier might decide to operate the SMETS1 metering system in dumb mode until it is enrolled into the DCC. A consumer that switches to a supplier who cannot operate in smart mode will no longer benefit from smart services (such as remote meter reads);
 - a gaining supplier who cannot fully operate the inherited metering system will typically offer a lower rent to the Meter Asset Provider (MAP)¹ as it is unwilling to pay for functionality that it cannot benefit from; and
 - there is a risk that the gaining supplier will prefer to use its own metering equipment and therefore replaces the SMETS1 metering equipment.
- 3.2. Other operational issues around change of supplier have been reported. While similar issues exist in the traditional and early smart-type meter markets, the increased cost of SMETS metering equipment relative to traditional dumb meters means there is potential for a significantly greater commercial impact:
 - MAPs cannot directly access industry systems and data relating to change of supplier events. As a result, they can be unaware when a new supplier is using metering equipment that they own and they are unable to track their assets effectively or negotiate a rent with the gaining supplier; and
 - It is reported that, in some cases, where a meter has been removed by a gaining supplier, it has not been returned to the MAP.
- 3.3. At this early stage in market development, actual stranding rates for SMETS1 metering equipment are uncertain. However, it has been reported that some pre-SMETS smart type meters that have been installed to date have been stranded in this way. The Government understands that, as a consequence of the above risks and issues, some suppliers and MAPs have found difficulty raising sufficient funding for smart metering equipment deployment, or increased risk premiums have been built into smart metering equipment prices. Some suppliers have indicated that they may reduce planned SMETS1 metering equipment deployments during Foundation due to the perceived commercial risks.

¹ Meters are generally financed by a Meter Asset Provider (MAP), who will charge the supplier a rent proportionate to the cost and functionality of the meter. Smart meters are more expensive and have greater functionality than dumb meters and hence command higher “smart rents”. Where a supplier chooses to install a smart meter, it will pay the MAP a smart rent.

Potential Licence Conditions Consulted Upon

- 3.4. The Foundation Smart Market consultation sought views on whether the increasing technical and regulatory certainty being provided by the Programme (e.g. SMETS and emerging enrolment and adoption policy) and other drivers (e.g. the Effective Switching obligations recently introduced by Ofgem) would deliver the objectives of the Foundation Stage without additional regulatory intervention.
- 3.5. The document set out three potential licence conditions for consultation:

Licence Condition 1 – ‘MAP Identity Provision’

- 3.6. Under this condition, the current supplier of a consumer with a SMETS compliant smart metering system is required to provide the gaining supplier, with the details of the MAP currently in place. It must also provide the MAP with details of the gaining supplier. This would allow the gaining supplier and MAP to initiate commercial discussions regarding rental for the smart metering equipment.

Licence Condition 2 – ‘Agree or Return’

- 3.7. This condition places an obligation on gaining suppliers requiring that, where they acquire SMETS compliant smart metering equipment on change of supplier, they must either agree rental terms for the metering equipment with the relevant MAP within a prescribed period, or return that equipment to the MAP at the end of that period if such agreement has not been reached.

Licence Condition 3 – ‘No Backward Step’

- 3.8. Under this condition, a gaining supplier will be required to take all reasonable steps to install a SMETS compliant smart metering system when it replaces a SMETS compliant smart metering system on change of supplier. This would ensure that compliant smart metering equipment would not be replaced with non-compliant equipment (e.g. a dumb meter). This would not require the gaining supplier to operate the smart metering system in smart mode, nor would it require that the replacement equipment had any functionality over and above the relevant SMETS specification (even if the replaced equipment did).

Government Position in Foundation Smart Market Consultation

- 3.9. The Government proposed to introduce Licence Conditions 1 and 2 above in combination to help address the factors discussed earlier which could impair the confidence of suppliers installing SMETS-compliant metering equipment and parties funding such investments. In particular these measures would provide significantly greater clarity to installing suppliers and MAPs as to how gaining suppliers should act on inheriting SMETS compliant equipment, and would facilitate negotiation, asset tracking and reduce stranding risks. Improvement of these issues is likely to have a positive impact on the consumer experience. However, it was also acknowledged that this approach would not preclude the replacement of SMETS compliant metering equipment or the operation of SMETS compliant metering systems in dumb mode during Foundation. Views were also sought on the merits of Licence Condition 3.

Summary of Responses

Overview of Responses

- 3.10. Twenty-seven consultation responses included views on the need for regulation and on the three proposed Licence Conditions. The respondents comprised a broad mix of large and smaller energy suppliers, MAPs, service providers, central bodies, trade bodies, consumer bodies and other parties. Responses by question are summarised in Annex A.
- 3.11. There was wide support among the respondents for the broad policy aims described in the consultation including: protecting the consumer experience and confidence in smart metering, creating appropriate commercial incentives and minimising stranding of SMETS compliant assets.
- 3.12. A significant majority of respondents, across all types of market participants, were of the view that a purely market-driven approach would not fully deliver the stated aims of Smart Change of Supplier during Foundation and that some level of regulation would be necessary to do so.
- 3.13. There were divergent views between those suppliers and other respondents who would like to invest in a significant volume of SMETS metering equipment during Foundation, and those who believe Foundation activity should be constrained. The former group favoured strong licence conditions, arguing that suppliers should not be allowed to strand SMETS1 metering equipment as this is unnecessary, wasteful and damages the consumer experience and investment confidence. Other suppliers argued that they cannot operate SMETS1 metering systems in smart mode without making unplanned and unnecessary investments and that it would not be appropriate to force them to do so during Foundation or to pay smart rental levels for meters used in dumb mode.
- 3.14. There was broad support for some form of the “MAP identity” obligation (Licence Condition 1), although a number of respondents suggested that this might be unnecessary in view of existing or planned industry process changes. Some variants of the obligation were suggested, including that MAPs should be directly notified upon Change of Supplier (for example via central industry systems).
- 3.15. A significant majority, again across all types of respondents, supported the proposed “agree or return” condition (Licence Condition 2), but almost all of these respondents suggested some variation, most commonly to extend the proposed period for agreeing terms, or to introduce a tighter definition of what would constitute appropriate rental terms. Those respondents who commented on the issue were generally supportive of a longer initial period (between three and six months) for the supplier and MAP to agree a churn contract, followed by a shorter period (such as one month) to agree terms where the equipment in question is already covered by such a contract.
- 3.16. A majority of respondents, including some of the large suppliers, supported the “no backward step” obligation (Licence Condition 3) on the basis that it would increase incentives towards agreement of a smart rent, protect investments made in the Foundation Stage and avoid unnecessary asset stranding (with the consequent impact on costs and consumers). However, a number of respondents opposed this condition, arguing that it would confer unfair

commercial advantage on some parties and could be difficult to design and enforce.

- 3.17. A small number of parties did not believe that Smart Change of Supplier is achievable at all during Foundation. They proposed that Smart Change of Supplier should only be undertaken after the DCC has become fully active and suggested that the Government should focus on the enduring solution.
- 3.18. A small number of respondents were of the view that the three proposed licence conditions would not go far enough. One suggestion made was for a requirement that, where the installing supplier is already required by regulation to provide a service to enable the gaining supplier to operate the smart metering equipment, the gaining supplier must adopt this service and operate any such inherited SMETS metering equipment as smart.

Analysis & Government Conclusions

Overall Conclusions

- 3.19. The consultation responses indicate that there is insufficient certainty that the market will deliver the objectives of Smart Change of Supplier during Foundation without regulation.
- 3.20. In view of the consultation responses, the Government has concluded that all three of the Licence Conditions consulted upon should be introduced, for the reasons set out in the following sections.
- 3.21. These three conditions, in combination, will limit the risk of negative experiences for consumers with SMETS1 metering equipment when they change supplier and help minimise stranded assets. Failure to address these issues could damage confidence in smart metering, undermine investment and negatively impact smart metering benefits.
- 3.22. This document also seeks views on a fourth proposed licence condition, which the Government is minded to introduce. This would require a supplier gaining a consumer with a SMETS compliant metering system to continue to carry out remote meter readings.

Reasons for Supporting Licence Condition 1 (MAP Identity Provision)

- 3.23. The Government's assessment is that, while changes to industry codes and processes are being progressed which may help address the lack of provision of relevant data to MAPs, there remains a risk that these issues will not be resolved fully, or with the required urgency, through these initiatives.
- 3.24. Regulating to improve the industry's asset tracking capability will help lower stranding risks. Licence Condition 1 is also a necessary enabler for Licence Condition 2 (agree or return), as it allows all parties that are impacted by a change of supplier event to identify each other and to enable timely commercial discussions.
- 3.25. There are likely to be some associated implementation costs for Licence Condition 1. Based on data provided to the Government by energy suppliers

and industry central bodies, one-off costs are estimated to be no more than £325k for central systems, plus £50k to £100k per energy supplier. This represents total costs of about £1.8 million in present value terms². The Government's assessment is that these costs will be significantly outweighed by the benefits of reducing risk and delay.

Reasons for Supporting Licence Condition 2 (Agree or Return)

- 3.26. The Government believes that Licence Condition 2 will improve current industry practice and reduce asset stranding risks by ensuring timely discussions between suppliers and MAPs on commercial terms following specific change of supplier events, and around churn agreements more widely. It addresses the current system failure where a MAP can lose track of its assets on churn and not receive a rental for, or recover, the assets. The Government acknowledges concerns expressed by some respondents that this condition could give unfair bargaining power to MAPs. However, the overall assessment is that this condition would support a more efficient process by removing the “do nothing” option from suppliers.
- 3.27. The Government has concluded that a period of up to six months would be appropriate for rental negotiations to be concluded under this obligation, dropping to one month where an existing commercial arrangement exists between the supplier and MAPs that would cover the relevant smart metering equipment. Suppliers will have one further month to return the smart metering equipment should an agreement on rental terms not be reached. These time periods are reflected in the legal text attached at Annex C.
- 3.28. Some respondents suggested the addition of guidance or direction on the level of smart rent to be applied under Licence Condition 2, for example to establish specific market-wide smart rental values. The Government's assessment is that this would be a disproportionate increase in regulatory intervention in a competitive market, difficult to enforce, and could lead to a number of unintended consequences.

Reasons for Supporting Licence Condition 3 (No Backward Step)

- 3.29. The Government considers that this obligation will help create conditions in which consumer benefits are maximised and unnecessary economic loss through stranded assets is minimised. A benefit of Licence Condition 3, particularly in combination with Licence Condition 2, will be that suppliers will have additional incentives to retain any SMETS1 metering equipment that they gain, whether or not they are able to operate it in smart mode prior to enrolment into the DCC service. This will help avoid costly and disruptive early replacement of SMETS compliant metering equipment.
- 3.30. Subject to consideration of additional Licence Condition 4 (see below), there will be no requirement for any inherited metering system or any replacement

² Including financing and optimism bias uplifts – see Smart Meters January 2013 Impact Assessment for further detail.

installed under Licence Condition 3 to be operated in smart mode³. As a result, it is not expected that there will be significant compliance costs for suppliers who are not offering smart services at the time the customer is gained.

- 3.31. The Operational Licence Condition (OLC), which is expected to come into force in July 2013, will require suppliers who choose to install smart meters to offer smart services using those meters. The Government believes that the introduction of the OLC will enable the maximum number of consumers to benefit from a smart service where suppliers are rolling out smart meters as part of their planned roll-out strategies.
- 3.32. The impact of Licence Condition 3 is to require a gaining supplier to install only SMETS compliant equipment if it chooses to replace any inherited SMETS compliant equipment following a change of supplier. This would be regardless of the choices made by the supplier in relation to their roll-out. Although the Government believes that preventing a 'backward step' (e.g. from smart to dumb meters) is justified in this context, it means that that the supplier will not have the option of installing a dumb meter where Licence Conditions 2 and 3 apply. The Government therefore believes that there should be an exception from the OLC requirements to operate a smart service in this specific circumstance.
- 3.33. The Government proposes to amend the OLC to achieve this, as detailed in the legal text attached at Annex D, from the point at which Licence Condition 2 and 3 come into effect. The effect of this exemption will be that the supplier would not be required to operate the replacement smart metering system in smart mode until such time as it is enrolled into the DCC, or 2020 (whichever is earlier).
- 3.34. The Government is minded not to apply Licence Condition 3 in circumstances where customers wish to use pre-payment services. However, we would welcome views on whether it would be practicable and desirable to do so.

Q1	Do you agree that Licence Condition 3 should not apply in circumstances where customers wish to continue to use pre-payment services after a change of supplier?
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Further Consultation

Potential Licence Condition 4 (Continue Remote Meter Reads)

- 3.35. A number of the consultation responses suggested that the proposed Licence Conditions (1, 2 and 3) would not go far enough to ensure a positive consumer experience and underpin investments made during Foundation. For example, one respondent proposed a requirement that, where an inherited meter is

³ The Operational Licence Condition will apply to all meters once they are enrolled to the DCC service or at latest by the end of 2020.

- SMETS compliant and the installing supplier is required to provide a service to enable the gaining supplier to operate that meter as smart (under the Effective Switching licence conditions), then the gaining supplier should be required to accept those services and operate the meter as smart.
- 3.36. This would go significantly beyond the effect of Licence Conditions 1, 2 and 3 and could pose operational and commercial challenges for those suppliers who were not ready or willing to operate all inherited metering systems as fully smart before the DCC is in place. The Government does not propose to introduce such a provision.
- 3.37. However, the Government is proposing an additional licence condition requiring suppliers to deliver a minimum smart service when gaining a customer with SMETS compliant metering equipment, with the minimum level of service defined as carrying out regular remote meter readings. This is referred to as 'Licence Condition 4' below and for the purposes of consultation.
- 3.38. This requirement would have the benefit of enabling consumers with smart meters that change supplier during Foundation to retain a key benefit of smart metering, i.e. no longer having physical visits to premises to obtain meter readings and the potential for accurate billing.
- 3.39. The Government is seeking views on this proposal, and in particular on the operational and commercial considerations that suppliers would face in complying with this proposal.
- 3.40. In developing this proposal for a fourth licence condition, the Government recognises the need to consider any wider impacts on other areas of policy. For example, the OLC will set out a number of obligations on energy suppliers, including a requirement for them to offer certain smart metering functionality from the time it comes into effect.
- 3.41. In its response to the consultation on the OLC, the Government stated that the OLC would not apply to meters inherited by gaining suppliers until the end of 2020, where these meters are not enrolled with the DCC. This decision was made on the basis that it would be unreasonable to impose a requirement on suppliers to provide the full requirements set out in the OLC, including smart services, ahead of this point. Licence Condition 4 would change this position, by requiring just one component of the OLC (remote readings) to be carried out by gaining suppliers on change of supplier, at a point where this would not otherwise have been required under the OLC. The Government recognises that this would require an amendment to the OLC, but believes there is merit in introducing the proposed Licence Condition 4 in the context of the broader proposals on Smart Change of Supplier set out in this consultation.
- 3.42. The introduction of the OLC will ensure that the benefits it supports are realised for the maximum number of consumers. Depending on the outcome of this consultation, further consideration would need to be given to any changes to the OLC to either implement or reflect the presence of this new licence condition during the Foundation Stage, were it to be introduced.
- 3.43. If applied, it is proposed that Licence Condition 4 would be given effect in April 2014. It is expected that Licence Condition 4 would cease to have effect in 2020, when the OLC begins to apply to all gaining suppliers.

3.44. As this proposal for a Licence Condition 4 has not been consulted on previously, the Government is seeking views on its merits.

Q2	<p>Please give your views, with supporting evidence, on:</p> <ul style="list-style-type: none">• the extent to which the proposed licence condition 4 would, in combination with conditions 1, 2 and 3 support the desired aims and outcomes of Smart Change of Supplier;• the operational impacts and viability of proposed licence condition 4, including whether any changes to industry systems or processes would be required, including any associated costs;• enforceability and oversight requirements of proposed licence condition 4;• whether smaller suppliers would face disproportionate impacts under proposed licence condition 4 and should be exempt from the obligation?
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Timing and Application of the Licence Conditions 1, 2 & 3

3.45. The Government proposes to make Licence Conditions 1, 2 and 3 effective and binding on suppliers from December 2013. It is expected that this will provide sufficient time between now and then for all suppliers to prepare for their introduction. Views are sought on whether this is an appropriate date upon which these obligations should be introduced.

3.46. The consultation sought views on the compatibility of the shortlisted regulatory options with the enduring smart metering arrangements and the potential need for any “sunset” provisions. Those respondents that commented on the need for sunset provisions agreed with the position set out in the consultation. The Government therefore confirms that Licence Conditions 1 and 2 will apply beyond the end of Foundation and into the enduring arrangements. Licence Condition 3 will no longer be required upon implementation of the “new and replacement” licence condition, as this will mandate that a supplier must take all reasonable steps to install only compliant meters from the point it comes into effect.

Q3	<p>Do you agree that December 2013 is an appropriate date from which Licence Conditions 1, 2 and 3 should apply?</p>
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3.47. The Government would welcome views and supporting evidence on whether there is a case to exempt small suppliers from any of Licence Conditions 1, 2 & 3.

Q4

Do you believe that there is a case for exempting small suppliers from any of Licence Conditions 1, 2 & 3? Please provide evidence to support your views.

Legal Drafting of Licence Conditions

- 3.48. The Government is seeking views on the draft legal text to give effect to Licence Conditions 1, 2 and 3, at Annex C. A number of points within the legal drafting are highlighted below:
- a) The Licence Conditions apply only where the gained consumer is at Domestic Premises.
 - b) The drafting refers to Smart Metering Systems. As drafted the obligations are therefore intended to apply in respect of more than just the smart electricity and/or gas meter at the consumer premises, and will include, for example, the Communications Hub (where this is owned by a MAP).
 - c) The drafting giving effect to Licence Condition 1 (to send a MAP Notice and a Supplier Transfer Notice) places the obligations on the supplier who, immediately prior to the most recent change of supplier was the supplier for the relevant premises (referred to as the Old Supplier). There are no such obligations placed on the installing supplier to the extent that this is a different supplier.
 - d) The wording obliging suppliers to send a notice to the relevant MAP and gaining supplier is not intended to preclude a central systems solution by which suppliers can collectively discharge these individual obligations.
 - e) Suppliers will be obliged to take “all reasonable steps” to return the relevant equipment to the MAP. This is intended to allow for situations where a supplier is unable to comply due to difficulties outside of their control.
 - f) The legal text giving effect to Licence Condition 3 states that the relevant smart metering equipment must be returned to the MAP, but that gas meters can be made available for collection by the MAP. The Government understands that this is in line with current industry practice and obligations.⁴
 - g) The text giving effect to Licence Condition 3 obliges a gaining supplier to replace any inherited SMETS compliant smart metering equipment with equipment that complies with the version of SMETS extant at the time the customer is gained.
 - h) Again, this obligation requires suppliers to take “all reasonable steps”. This is intended to address situations where such replacement is not possible.

⁴ In the electricity arrangements there is currently an expectation to return the metering equipment to the MAP. In the gas arrangements the expectation is that the meter operator notifies the MAP that they are holding the asset and the MAP is expected to collect the assets.

- i) An exclusion has been included within the wording giving effect to Licence Condition 3 that will apply where the replacement smart meter is a Prepayment Meter.
- j) The definition of Meter Asset Provider that has been used is based on the definition proposed under changes to the Unified Network Code: “means any person who provides apparatus forming part of a Smart Metering System at Domestic Premises but does not have responsibility for the maintenance of any such apparatus”.

3.49. As noted above, the legal text to amend the OLC is set out in Annex D.

Q5	Do you have any comments on the proposed legal text in Annex C?
Q6	Do you have any comments on the proposed legal text in Annex D?

4. Enrolment and Adoption

Introduction & Consultation Proposals

- 4.1. The Foundation Smart Market consultation sought views in relation to:
 - the process that should be followed for enrolment of Foundation meters;
 - adoption of associated communications contracts;
 - the criteria that should be met for meters to qualify for enrolment into the DCC service; and
 - how any costs incurred by the DCC should be recovered from users.
- 4.2. The consultation outlined a voluntary supplier led process under which:
 - individual suppliers or groups of suppliers could request enrolment for a particular group of smart metering systems;
 - the DCC would be obliged to offer terms for enrolment of the meters provided that they met the enrolment criteria and the communications contracts met the adoption criteria; and
 - suppliers would then decide whether to proceed or not.
- 4.3. The enrolment criteria proposed in the consultation covered the specification of the meters, the protocol used for messaging on both the WAN and the HAN, and the security requirements. The list of requirements for adoption of the communications contracts included issues such as the reasonableness of the contract costs, and of the remaining term of the contracts.
- 4.4. The consultation identified the nature of both one-off and on-going costs to enrol the Foundation meters, and proposed mechanisms for allocation of those costs to users. A number of allocation methods were considered for the one-off costs, including recovery from the installing supplier and recovery from all current suppliers of the relevant meters. In the consultation the Government was minded to apply a hybrid mechanism under which the installing suppliers would pay a share of the costs pro-rata to the share of the relevant body of meters for which they were also the then current supplier. The share of costs relating to meters supplied by gaining suppliers would be socialised (i.e. spread across all users).
- 4.5. The on-going communications costs and other operational costs were expected to be similar to those for SMETS2 metering equipment serviced through the DCC, and it was proposed that these would be socialised.

Summary of Responses

- 4.6. Questions 4-7 sought views on whether or not the process should be mandatory and, if so, when it should take place. The questions covered both Data Enrolment and Full Enrolment. Respondents had mixed views on this subject. Most suppliers considered that enrolment should be voluntary, whereas most MAPs supported a mandate. There were no conclusive arguments in favour of a mandate, although certain advantages such as

economies of scale and facilitation of the change of supplier process were noted. Of those who expressed a view on the timing of any mandate the majority suggested that it should be soon after go-live of the DCC service.

- 4.7. Questions 8 and 10-12 sought views on the proposed process for enrolling Foundation meters and related issues such as the potential need for a disputes resolution process. Almost all respondents supported the proposed process. There were a number of caveats expressed, but these mostly related to issues of cost allocation and recovery. A small number of suppliers expressed concerns that the DCC's role in the process might not lead to the best economic outcome since it might place its own interest above that of the users. Most respondents did perceive the need for a clear dispute resolution process, including the need to resolve disputes between suppliers, although there was a concern that purely commercial disputes would be better dealt with through the courts rather than by Ofgem.
- 4.8. Question 9 addressed the process for termination of a Foundation communications contract that the DCC was unable to renew at economic cost. This process required the DCC to obtain agreement from the SEC panel for termination of such a contract, to take into account the full costs to the industry of their actions, and to provide sufficient notice to the users to allow them to schedule site visits etc. for replacement of communications hubs and/or meters. The majority of responses supported the proposal. The main concerns expressed related to the potential costs of early replacement of communications hubs and/or meters.
- 4.9. Questions 13-16 sought views on the proposed enrolment and adoption criteria. The majority of responses supported the criteria, although there were some concerns that the adoption criteria were subjective and needed further detail. One supplier expressed serious concerns that the criteria would support a 'false start' for the smart market based on SMETS1 metering equipment rather than SMETS2 metering equipment.
- 4.10. Questions 17-22 sought views on the nature of the incremental costs that the DCC would incur to enrol and provide services for the Foundation meters, and the allocation of those costs to users for recovery through DCC charges. Respondents generally agreed with the nature of costs identified, and three suppliers provided information on the level of communications charges that they would incur under their Foundation contracts (two of these provided the information in confidence). Respondents also generally agreed with the proposed principles for assessing options for cost allocation. Strong views were expressed in support of each of the cost allocation options presented, from installing suppliers paying all incremental costs incurred by the DCC to all such costs being socialised. There was a similar spread of views on proposals for special measures to protect small suppliers such that they would not be disadvantaged simply on grounds of their size.
- 4.11. Responses by topic are summarised in Annex B.

Analysis & Government Conclusions

- 4.12. The Government believes there are important and common benefits from being able to enrol SMETS1 equipment into the DCC service. In particular, this includes more efficient and effective switching of customers with such meters, and the ability for all DCC users to access the meters. It should also reduce the risk of assets being replaced before the end of their operating lives.
- 4.13. The Government therefore believes an important task for the DCC, its service providers, and energy suppliers will be to establish projects to develop systems under which the DCC will support messaging to and from SMETS1 meters on behalf of suppliers.
- 4.14. The Government has concluded that this work should be carried forward according to a number of key principles:
- that all significant populations of SMETS1 meters should be supported;
 - that the first generation of enrolment should be undertaken as a single exercise to minimise costs; and
 - that the costs of the system development and enrolment process should be conducted in an efficient manner and spread across all DCC users, as there are common benefits from such enrolment.
- 4.15. The Government acknowledges that considerable further work will be required after the DCC and DSP have been appointed between those parties, energy suppliers and other industry parties. This will define the details of the initial project, determine matters such as timing, and commission a programme of work. The Government will support this work and the process of determining the terms of the initial enrolment project as necessary.
- 4.16. The Government's preferred approach to enrolment and adoption is set out below, along with further consultation questions on cost allocation.

Enrolment & Adoption Criteria

- 4.17. Metering equipment will be enrolled into the DCC through a set of projects (called initial Foundation enrolment projects). It is not possible to specify the composition of the specific enrolment projects at this point in time, as this is dependent upon the range of metering equipment that will be available for enrolment.
- 4.18. The Government has decided that metering equipment will be required to meet certain criteria to be considered for inclusion in these projects. These are set out below.
- 4.19. The minimum criterion for inclusion of metering equipment within the initial Foundation enrolment projects is that the meters were compliant with a version of SMETS that was extant at the time that they were installed.
- 4.20. In addition, the Foundation communications contract should meet criteria for the contract to be adopted by the DCC. These criteria were laid out in the Consultation and drew no substantive comments from respondents. Those criteria, with minor deletions of detail, are set down in Annex E. Alternatively,

the DCC must be able to use another communications contract with the same provider to communicate with the meter. The latter situation may arise where several suppliers contract with a single Foundation communications service provider, and so it may be more efficient for the DCC to service all such meters under one of these contracts.

- 4.21. The Government has considered the security impacts of operating SMETS1 meters in the DCC and has concluded that this is not a barrier to enrolment.
- 4.22. Certain SMETS1 metering equipment may be capable of meeting the SMETS 2 security requirements, in some cases via an upgrade, and be able to interoperate with CSP and DSP systems. Such meters may be enrolled into the DCC in the same manner as SMETS 2 metering equipment.
- 4.23. However, other SMETS1 metering equipment will need to be operated within a segregated environment within the DCC (referred to as 'islanding').

Enrolment Process

- 4.24. Following consideration of the responses to the consultation, the Government continues to take the view, as set out in the Programme Update document of April 2012⁵, that it should ultimately be for energy suppliers to determine if they wish the SMETS1 metering equipment they operate to be enrolled in the DCC.
- 4.25. In order to support the efficient scheduling of meters into enrolment project proposals, the DCC will require suppliers to provide details of all meter types that they have installed during Foundation. The proposed process is set out below.
- 4.26. Suppliers will be required to make all reasonable endeavours to provide full details of how the SMETS compliant Foundation metering equipment that they have installed has been configured and of the messaging between the SMSO systems and the meters. They will also be required to provide details of the security risk assessments and any security audit reports for those meters and the associated communications contracts.
- 4.27. The DCC will require the DSP to prepare an enrolment feasibility report covering:
 - the categorisation of the meters;
 - options for how the meters might be enrolled (including costs);
 - meter configuration;
 - compliance with the enrolment criterion;
 - any proposals to continue to use part of the SMSO infrastructure;
 - proposed security arrangements;
 - integration requirements;
 - proposals for data translation and migration;
 - testing and acceptance;

⁵ 'While it is the Government's objective that domestic smart meters are managed through the DCC, it will not place obligations on suppliers to enrol [Foundation] meters with the DCC at this point and does not intend to apply such obligations retrospectively.'

- evaluation of using previous solutions;
 - charges for enrolment services;
 - timescales for enrolment services;
 - charges for on-going services; and
 - impact on service levels.
- 4.28. The DCC would, in parallel, assess the associated Foundation communications contracts that would need to be adopted, and determine the best method of aggregating the associated metering equipment into enrolment projects.
- 4.29. When the details of the enrolment projects that will proceed have been confirmed, the DCC will instruct the DSP to design, build and test the relevant systems. The DSP will subsequently test that it can communicate with the meters but will not test the functionality of the metering equipment. The DCC will then adopt Foundation communications contracts as required.

Enrolment Costs

- 4.30. The policy by which DCC fixed costs will be recovered from suppliers has previously been published: the principles for charging are laid out in the DCC Licence and the detailed mechanism in the Smart Energy Code.
- 4.31. There will also be incremental costs associated with enrolling SMETS1 meters into the DCC. Two types of incremental cost are distinguished for the purposes of determining a cost allocation policy. These are the one-off costs of building systems to enrol meters and the on-going operational costs associated with sending and receiving messages.

One-off costs

- 4.32. The one-off costs, which were detailed in the Foundation Smart Market consultation include:
- designing and building the systems infrastructure;
 - data migration; and
 - contract novation.
- 4.33. The Government has reviewed the case for the hybrid approach to cost recovery proposed in the consultation document. The hybrid mechanism does not allocate the full costs across all those users who may benefit in the future from the one-off investment in systems. In addition the hybrid mechanism is more complex to implement than other options. The Government has also made broad estimates of the cost of a project incorporating all major populations of SMETS1 meters based on the indicative cost estimates received from bidders, and experience of energy suppliers operating smart meters today. On this basis, the Government believes the common benefits of enrolling SMETS1 meters justifies spreading the one-off costs across all users and intends to adopt this approach.

On-going costs

- 4.34. The on-going costs can be considered in two categories. These are:
- operational costs incurred by the DCC and its service providers; and
 - the communications costs paid by the DCC under adopted Foundation communications contracts.
- 4.35. The operational costs incurred by the DCC and its service providers will be lower in relation to enrolled meters than in relation to meters operated through the CSP arrangements. This is because, in particular, variable payments to the CSP for message transactions will be avoided. However, the DCC will also incur additional costs in relation to enrolled meters, in the form of the charges owed under Foundation communications contracts. In general those additional costs are likely to be higher than the avoided costs.
- 4.36. This is a more detailed analysis of cost items than was set out in the Government's consultation document in November 2012. The Government therefore wishes to consult further on the allocation of on-going communications costs for SMETS1 meters. We would welcome views on three options:
- Option 1: under this approach suppliers will pay the same charges for each of their meters irrespective of whether the meter is an enrolled SMETS1 meter or a SMETS2 meter operated through the CSP communications service.
 - Option 2: under this approach additional on-going Foundation communications costs will be paid by the supplier responsible for the meter, as long as that supplier is the supplier which installed the SMETS1 meter. If the meter has churned, the supplier will pay the same charges as for a SMETS2 meter operated through the CSP communications service (ie as for Option 1).
 - Option 3: under this approach suppliers operating SMETS1 meters will be charged the full costs incurred by the DCC in relation to that meter arising from the foundation communications contract. The supplier operating that meter will also be subject to a charge for DCC services but that charge will not include any contribution to DCC communication service providers' costs (either variable costs or a share of the fixed costs).
- 4.37. The Government considers a case can be made for Option 1 on the basis that the service levels provided by the DCC are the same for both SMETS1 and SMETS2 meters, and there is a common good in SMETS1 meters being enrolled in the DCC. Option 1 would be simpler to implement than other options. A similar argument can be made in favour of Option 3, which would lower or eliminate additional costs faced by operators of SMETS1 meters enrolled in the DCC, but would be more complex to implement. However, the Government acknowledges there are potential counter arguments. In particular, Option 2 provides greater visibility to the installing supplier of the costs and benefits of Foundation smart meters.

- 4.38. If Option 1 was to be pursued, there is a case for limiting the charging approach to:
- the number of meter installations that would be needed for new build/new meter points; and
 - the number of meters that will reach the end of their operational life during the Foundation period and require replacement.
- 4.39. This would reflect the fact that an important benefit of the early installation of meters during the Foundation period is the avoidance of dumb for dumb meter replacements.
- 4.40. It is envisaged that any such limit would be applied by setting a cap on the number of meters installed by each supplier to which Option 1 will apply. This cap will be based on a notional average rate of installation of new and replacement meters expressed as a percentage of meter stock for each month. This would be calculated for each supplier based on their market share. For meter volumes over and above this cap, the charging approach under Option 2 would apply.
- 4.41. On a de minimis basis, and in recognition of the potential impact on smaller suppliers' business models, it is proposed that any such cap should not be lower than 50,000 meters in any one year.
- 4.42. The Government would welcome comments on the merits of such a limit if Option 1 was to be pursued.

<p>Q7</p>	<p>What are your views on the advantages and disadvantages of each of options 1, 2 and 3 identified above? Please give details of your assessment of each of these options based on the assessment criteria:</p> <ul style="list-style-type: none"> • impact (the economic efficiency of the option and how it supports (the development of the smart market); • cost reflectivity (the fairness of the allocation and its non-discriminatory nature); and • practicality (how readily it might be implemented)?
<p>Q8</p>	<p>What are your views on the proposed cap on the numbers of meters to which the cost allocation treatment under option 1 would apply?</p>

Annex A: Smart Change of Supplier - Responses by Question

- 1.1. This Annex highlights the main issues and arguments raised by respondents in relation to each option presented in the consultation.

Q1: What are your views on whether on-going programme and market evolution deliver Smart Change of Supplier as standard during Foundation without further regulation

- 1.2. A number of respondents suggested that a range of factors could partially achieve Smart Change of Supplier during Foundation. For example, market pressures will drive a desire to maintain the consumer's smart services in order to give the consumer a positive experience upon change of supplier. Respondents highlighted the Effective Switching licence conditions recently introduced by Ofgem, under which suppliers with over 250,000 domestic customers (and certain smaller suppliers) are obliged to offer services that are reasonably required by a gaining supplier related to the functionality of the meter. Some respondents argue that this removes a major barrier for the gaining supplier and makes it reasonable for them to pay a smart rent. However, others noted that these provisions have been introduced very recently and the impact is not yet known.
- 1.3. Respondents also noted that planned industry process changes will improve industry data availability and processes around change of supplier events, but others argued that these developments will still fall short of allowing MAPs to track their assets effectively.
- 1.4. However, even amongst those parties highlighting these enablers, the prevailing view was that some level of regulation is still required. In recognising the need for regulation, some parties noted that a market-driven approach has failed to deliver the desired outcomes to date and warned that without regulatory intervention, there will be a loss of momentum resulting from a lack of clarity over asset arrangements. Only one large supplier believed that the current market arrangements and industry modifications in progress will be sufficient to fully deliver Smart Change of Supplier during Foundation, and that additional regulatory intervention is not required.

Q2: Do you agree that a combination of proposed Licence Conditions 1 and 2 would most effectively support the desired aims and outcomes of Smart Change of Supplier?

Licence Condition 1 – MAP Identity

- 1.5. Respondents in favour of this condition considered it to be an effective mechanism to increase the effectiveness of asset tracking, reducing risk premiums that MAPs may apply which in turn would benefit consumers through reduced metering costs and support a cost effective roll-out.

- 1.6. Opponents of the condition suggested that regulation is not necessary as the data flows could (and should) be delivered through existing industry processes and codes, citing changes recently brought forward under the Supply Point Administration Agreement and the Uniform Network Code, as potentially satisfying the requirements of Licence Condition 1.

Licence Condition 2 – Agree or return

- 1.7. Respondents favouring this condition supported it as it would mean that gaining suppliers cannot adopt a “do nothing” approach, as can happen at the moment. They would have to engage with the MAP and agree a rental, or make the decision to proactively remove the meter and return it. It would therefore improve current operating practices, incentivise commercial discussions, and give more certainty about treatment of assets. Respondents also suggested that it could provide a good economic incentive for retaining use of the meter while avoiding the complexity of defining “reasonable terms” that could apply in all cases.
- 1.8. Opponents of Licence Condition 2 suggested that it could confer undue bargaining power on MAPs, exploitation of which could lead to higher rents. Some suppliers were concerned that there would be no corresponding obligation on MAPs to offer a reasonable rent that reflects the level of smart operation of the meter. They suggested that, in the absence of a specific contract, the supplier must accept either the MAP terms or the costly alternative of replacing the meter. Taking the latter course in the face of a roll-out obligation, which will require the supplier to change that meter yet again, would normally be economically unviable.
- 1.9. A small number of respondents suggested that an unintended consequence may actually be an increase in the number of meter exchanges overall if, for example, suppliers view meter return as an alternative to paying stranding or termination fees. This could increase MAP risk and decrease investment.
- 1.10. As with Licence Condition 1 above, some respondents believed regulation was unnecessary as the delays in agreeing prices and/or arranging the return of meters in the past were a result of MAPs having insufficient data and this is already being addressed through changes brought forward by industry.
- 1.11. There was a range of responses on the time period that should be allowed for negotiations and then for return of the meter, and the trigger for this period. Views ranged from one month to three or more. Respondents recognised where an existing commercial relationship exists between the MAP and the gaining supplier then negotiations around an individual asset could be expedited. Respondents also highlighted the need to make allowance for practical challenges, such as gaining access to consumer premises to replace and return meters.

Q3: What are the advantages and disadvantages of proposed Licence Condition 3 (no backward step) and the extent to which it would, either in combination with or separately from conditions 1 and 2, support the desired aims and outcomes of Smart Change of Supplier

- 1.12. Respondents in favour of this condition believed that it is a powerful additional measure, which would avoid significant extra cost, unnecessary inconvenience to the customer and extra pressure in meeting the 2020 target caused by unnecessary removal of SMETS compliant meters. Supporters also suggested that Licence Condition 3 is needed as Licence Condition 2 does not go far enough as the removal of the meter often introduces additional repair and refurbishment costs in addition to the stranded costs of installation and there is a very high incidence of damaged or difficult to trace meters. Some respondents also indicated that this condition would incentivise acceptance of reasonable rental terms and mitigate the risk of never agreeing terms under Licence Condition 2.
- 1.13. Opponents of the condition argued that it would offer an unfair commercial advantage for MAPs. Suppliers were also divided on this condition in line with their Foundation strategy.
- 1.14. One large supplier was of the view that Licence Condition 1 and Licence Condition 2 will be sufficient incentive to deliver the intent of this additional provision. Other respondents suggested that there was insufficient evidence of a problem justifying Licence Condition 3 and that it would be superfluous, as both regulatory and commercial incentives already exist that will ensure suppliers roll out smart meters. For example, from a commercial perspective, replacing a smart metering system with a dumb meter would simply attract additional cost and there is therefore no need for such a licence condition in these circumstances. Several respondents noted that this condition would need to be drafted in such a way as to allow for appropriate treatment of prepayment customers, as a SMETS1 meter in prepayment mode will not be able to be switched to 'dumb' mode and still operate as a prepayment meter.

Annex B: Enrolment and Adoption - Responses by Topic

Q4: Do you consider there is a case for considering a Data Enrolment mandate and do you have evidence to support this case?

Q5: When do you consider any Data Enrolment mandate would most sensibly be applied and do you have any evidence to support this analysis?

- 1.1. MAPs, network operators and service providers were generally in support of a mandate, whereas energy suppliers were not. The main arguments in favour of a mandate were that it would increase economies of scale and provide a single secure interface for all users. This in turn would ensure that the meters would be accessible for network data and that it would increase confidence in the Foundation market. Those against a mandate were concerned that there was insufficient evidence to support the costs and benefits of data enrolment, and that enrolment should happen naturally if it is economic and makes commercial sense. In particular there was a concern that data enrolment may not be economic for small bodies of meters that may have been installed as a trial to be enrolled.
- 1.2. Responses on the matter of timing were less clear cut given the lack of support for a mandate. The general view amongst those who gave clear views on timing was that it should be early in the mass rollout phase. Some respondents suggested that it should be before go-live, although a greater number suggested that it should not take place before the DCC services were in stable live operation.

Q6: Do you agree that there is not a strong case for considering a Full Enrolment mandate and do you have views to support this, or the contrary position?

Q7: In the event that a Full Enrolment mandate was to be applied, what do you consider an appropriate effective date would be?

- 1.3. Nearly all respondents agreed that there is not a strong case to support a mandate for Full Enrolment. The main arguments were that the technical implications are not yet understood and that the economic case to make site visits to replace the communications hubs would need to be considered on individual basis. Full Enrolment would be disruptive for consumers.
- 1.4. Few respondents provided a clear view on the timing of a putative Full Enrolment mandate, and those that did split equally between those advocating implementation shortly after go-live, and those who suggested that this should be a backstop requirement to be completed by the end of the mass rollout period.

Q8: Do you agree with the core Enrolment and Adoption process set out? If not please explain why not and propose changes to address the issues identified.

- 1.5. Respondents generally agreed with the core elements of the process although there were a number of suggestions for additional detail. In particular, there were suggestions that the process would need to provide for a thorough

evaluation of the technical and security requirements for enrolment of SMETS1 meters and of the costs for the proposed projects. There were also concerns that the timescale for DCC's evaluation should be reasonable.

- 1.6. Specific concerns were raised that Full Enrolment could lead to a requirement to replace IHDs or CADs and that the costs of this would need to be reflected in any decision to fully enrol a Foundation meter.

Q9: Do you agree with the approach to adopted Foundation communications contracts that may be approaching renewal / termination?

- 1.7. While there was general support for the approach a number of concerns were raised. These included concerns regarding the cost of site visits to replace the communications hubs if the Foundation contracts were not renewed and that the standard CSP communications hub may not work with SMETS1 meters and the potential consequential need to replace the metering equipment. The need to take into account the impact on consumers, who would face the inconvenience of a site visit, was noted.
- 1.8. Respondents were concerned that if the DCC were to decide to terminate Foundation communications contracts, then suppliers should be given sufficient notice to manage the replacement of communications hubs without disruption to smart metering services.

Q10: Do you agree that the DCC Licence, as currently drafted, should be sufficient to ensure that the DCC will act to achieve an appropriate economic outcome for Enrolment and Adoption including ensuring that the terms it offers will be reasonable?

- 1.9. Most respondents agreed that the DCC's Licence would be sufficient. Some respondents noted there needed to be adequate transparency of the underlying costs of enrolment proposals. Among the negative views the main concern was that the DCC's commercial interests may not align with those needed to drive an appropriate economic outcome for enrolment and adoption. The counter view to this was that if DCC users considered that the DCC's proposals did not reflect the full picture then they should be able to raise a dispute that would be taken to Ofgem for determination, and Ofgem would have a mandate to take into account the broader benefits and implications.
- 1.10. Some respondents suggested that the broader decision criteria needed to include consideration of the impact on customers of activities relating to enrolment and adoption, especially if those activities would require a site visit to consumers' premises to modify or exchange equipment.

Q11: Do you consider that relying on the disputes resolution process in the DCC Licence is sufficient in order to resolve disputes between suppliers and the DCC on enrolment and adoption?

Q12: Do you consider that there is a need for a dispute resolution process to cover supplier to supplier disputes arising through the Enrolment and Adoption

process through the SEC, and if so what guidelines if any should there be for its application?

- 1.11. There was general support for the use of the existing SEC / DCC Licence dispute resolution processes and the need for these to be comprehensive. There were concerns that Ofgem's role in dispute resolution would need to be clearly defined, and that Ofgem should not determine disputes that were purely commercial in nature. There were also concerns that any dispute resolution process should allow suppliers sufficient opportunity to resolve disputes among themselves before escalation.
- 1.12. One respondent expressed concern regarding the 'pay now dispute later' approach, which they see as favouring the party who is paid.
- 1.13. Concern was expressed that any dispute resolution process should take into account the broader interests of consumers and should not be limited to resolving the narrow interests of the parties involved in the dispute.

Q13: Do you agree with the proposed Enrolment Criteria, and if not what changes would you propose? Please provide detail to support any proposed changes to the proposed criteria.

- 1.14. There was general support for the criteria with nearly all respondents who answered this question giving positive views. One respondent disagreed with the criteria, stating that there was a danger that they would lead to a 'false start' for the smart market. Their view was that the market start up should wait for SMETS2 meters.
- 1.15. Other issues that were raised include:
- The difficulty the DCC may face in establishing whether or not meters met the protocol requirement, given that there is no certification requirement within the SMETS1 specification.
 - Concern that security requirements should not be 'watered down' to accommodate SMETS1 meters. A counter view was that this could be addressed by the DCC through partitioning or islanding meter populations within its service.
 - The need for further definition of the requirements to give certainty to meter manufacturers.
 - A concern that the price criterion (which is within the Adoption Criteria) should be better specified.

Q14: What are your views on the overall approach and the full list of Adoption Criteria proposed in the Annex? Is the list comprehensive? Are any of marginal importance that should be excluded?

Q15: Are there any additional Adoption Criteria that should be included?

- 1.16. All respondents who answered question 14 were in general support of the criteria, although there were a number of qualifications to this support:

- There should be greater clarity on the 'justifiable variance' to the DCC's CSP communications costs and this should not lead to the adoption of expensive contracts that were counter to consumers' interests.
 - There should be greater clarity on a number of other criteria, including Exclusivity and Restrictive terms, Transparency, Change of Control, and Dispute or Poor Performance Resolution.
 - One respondent suggested that the requirements on IPR would be unenforceable.
 - Some suppliers considered that there should be a termination for convenience clause, although not all other respondents support this.
- 1.17. There were views that the criteria will need to be developed further once there is greater clarity on the development of the Foundation market and once the DCC and DSP are in place. Specific suggestions for additional criteria included:
- There should be 'duplication criterion' requiring the DCC to consider whether it could more efficiently use an existing communications contract rather than adopting a new one.
 - One respondent suggested that the SLAs should be the same as those for the DCC's CSPs.
 - There should be a feasibility study to assess the full impact on all parties.

Q16: What evidence do you have to assist in the evaluation of the economic viability of Adoption?

Q17: Do you agree with the type of costs that will be incurred by the DCC in enrolling Foundation meters and the adoption of communications contracts? Is the list comprehensive?

Q18: Do you have evidence that will assist in assessing the scale of these costs?

- 1.18. Three respondents provided pricing for their Foundation communications contracts. Two of these responses were confidential. One respondent noted the need to consider the full range of costs and benefits.
- 1.19. There was general agreement on the types of charges that would be incurred for enrolment, although one respondent noted that the difficulty of assessing those costs should not be underestimated. In particular they were concerned that when making judgements about enrolment, the full range of costs that might impact end customers should be taken into account. Another respondent expressed concern that any requirement to update firmware on meters to comply with the GB Companion Specification (which was a potential requirement for full enrolment) could prove very costly.
- 1.20. One respondent suggested that renting head end services rather than buying or developing them might provide the cheapest solution.

Q19: What comments do you have on the principles proposed to assess options for cost allocation?

- 1.21. The respondents who answered this question were generally supportive, and in particular supported the need for the mechanism to be non-discriminatory.
- 1.22. One respondent stated that they had expected a model under which qualifying meter populations would automatically be treated in the same way as directly enrolled SMETS2 meters. Another respondent raised a concern that these principles should not overturn the principle that suppliers installing meters during the Foundation period should do so at their own risk.
- 1.23. One respondent noted that when assessing what was fair, both costs and benefits should be taken into account, including the benefits that would arise to all suppliers from the enrolment of Foundation meters.
- 1.24. One respondent noted that the principles may conflict since, the simplest and most practical solution may not be the most equitable.
- 1.25. One respondent expressed concern that the principles made no mention of the impact on consumers, given that cost reflectivity does not always result in a fair allocation of charges to end customers.

Q20: Do you agree with the proposed cost allocations for both one-off and on-going costs for Enrolment and Adoption? Please explain your reasons for each category of costs.

- 1.26. Views on this question were divergent and strongly expressed. Respondents who were not energy suppliers were generally supportive of the proposals.
- 1.27. Only one supplier supported the proposed hybrid mechanism for recovery of the one-off costs of enrolment. Arguments against this included that it was discriminatory and therefore in breach of the principles for assessment of the options for cost recovery. The remaining suppliers fell into two groups, those who believed that all costs should be socialised, and those who believed that the installing suppliers should pay all incremental costs.
- 1.28. Those in favour of socialisation of costs argued that enrolment of Foundation meters is of benefit to all suppliers since meters may transfer between suppliers at any time. They also argued that any other allocation would be a potential disincentive to participate in the Foundation market – i.e. that it would discourage early rollout. A further argument was that gaining suppliers would avoid the need to install a smart meter at a later stage during rollout, thereby avoiding the installation costs.
- 1.29. Those in favour of the installing supplier paying argued that activity in the Foundation market was to be at the supplier's risk. They also argued that the installing suppliers were responsible for the choices that would drive the costs of enrolment, while these lay outwith the control of suppliers gaining such meters. There was a concern that any other option could encourage excessively expensive Foundation activity, leading to cost increases for consumers.
- 1.30. Fewer views were given on the proposals for allocation of on-going communications costs, and most of those reflected the expectation that the true incremental costs would be very small. Two respondents asked for greater

clarity of the treatment of fixed and variable charges arising under the communications contracts.

Q21: Do you consider that small suppliers should have some or all of their one-off / capital Data Enrolment costs socialised? Please explain your reasons.

Q22: What do you consider is an appropriate mechanism or threshold for a cap for socialisation of small suppliers' one-off / capital Data Enrolment costs?

1.31. Answers to these questions were, in part, influenced by views on how costs should be allocated. There was also a split between larger and smaller suppliers.

1.32. Generally the arguments that could be seen as supportive of some form of cap suggested that the costs per meter should be the same for all suppliers (i.e. on the cost socialisation principle).

1.33. Arguments against included the risk that a smaller supplier who chose to implement smart meters in a unique manner might impose undue cost on the system for a relatively small population of meters. Very few respondents made any suggestions as to how a cap might be introduced. Those who did favoured a cap of the form of a per meter charge.

Annex C: Legal Text for Smart Change of Supplier Obligations

Electricity Supply Licence

Condition [No.] Smart Metering - Continuation of Arrangements on Change of Supplier

Application

- 1 This Condition applies in relation to Domestic Premises at which there is installed a Smart Metering System (the **relevant premises**).

Obligation on Old Supplier - Notification of Meter Asset Provider

- 2 This paragraph applies where:
 - (a) immediately prior to the most recent Supplier Transfer the licensee was the Relevant Electricity Supplier for the relevant premises (the **Old Supplier**); and
 - (b) the Electricity Supplier that became the Relevant Electricity Supplier for the relevant premises by virtue of the most recent Supplier Transfer (the **New Supplier**) is not, at the date of the most recent Supplier Transfer, the Meter Asset Provider for all of the apparatus forming part of the Smart Metering System at the relevant premises.
- 3 Where paragraph 2 applies the licensee must take such steps and do such things as are within its power to send, within [21] working days (or such other timescale agreed with the New Supplier or the Relevant Meter Asset Provider as the case may be) of the Supplier Transfer:
 - (a) a Notice to the New Supplier giving:
 - (i) the name and contact details of each Meter Asset Provider providing any apparatus forming part of the Smart Metering System at the relevant premises (**Relevant Meter Asset Provider**); and
 - (ii) details of the apparatus provided by each Relevant Meter Asset Provider named in the Notice (the **Relevant Apparatus**),

(a **MAP Notice**);
 - (b) a Notice to each Relevant Meter Asset Provider (other than the licensee) giving the date of the most recent Supplier Transfer for, and the name of the New Supplier at, the relevant premises

Obligation on New Supplier - Arrangements with the Meter Asset Provider

4 This paragraph applies where the licensee is the New Supplier in relation to a relevant premises and

- (a) receives a MAP Notice from the Old Supplier; or
- (b) is contacted by a Relevant Meter Asset Provider.

5 Where:

- (a) paragraph 4 applies; and
- (b) the licensee does not have an agreement with the Relevant Meter Asset Provider for the provision of apparatus of the type provided by that Relevant Meter Asset Provider and forming part of the Smart Metering System installed at the relevant premises,

the licensee must take all reasonable steps to ensure that by no later than [6] months from the date of the MAP Notice:

- (c) it has entered into an agreement with the Relevant Meter Asset Provider for the provision of apparatus of the type provided by that Relevant Meter Asset Provider and forming part of the Smart Metering System installed at the relevant premises; and
- (d) the agreement includes terms in relation to the provision of the Relevant Apparatus at the relevant premises.

6 Where:

- (a) paragraph 4 applies; and
- (b) the licensee has an existing agreement with the Relevant Meter Asset Provider for the provision of apparatus of the type forming part of the Smart Metering System installed at the relevant premises, it must take all reasonable steps to ensure that by no later than [one] month from the date of the MAP Notice the existing agreement includes terms in relation to the provision of the Relevant Apparatus at the relevant premises.

Obligation on New Supplier - Return of Apparatus

7 Where the licensee is unable, in accordance with either paragraph 5 or 6 (as the case may be), to agree terms with the Relevant Meter Asset Provider in relation to the provision of Relevant Apparatus at the relevant premises within the period specified (the **relevant period**), it must take all reasonable steps to return the Relevant Apparatus to the Relevant Meter Asset Provider by no later than [1] month after the expiry of the relevant period.

8 Where paragraph 7 applies, the licensee must ensure that any Relevant Apparatus returned in accordance with that paragraph is, at the time it is returned to the Relevant Meter Asset Provider, in the same condition in which it was when it last formed part of the Smart Metering System at the relevant premises.

Obligation on New Supplier - Replacement of SMS Apparatus

9 Where the licensee:

- (a) is the New Supplier in relation to a relevant premises;
- (b) returns (or is taking steps to return) Relevant Apparatus to the Relevant Meter Asset Provider pursuant to paragraph 7; and
- (c) installs, or arranges the installation of, replacement apparatus for that Relevant Apparatus,

it must take all reasonable steps to ensure that the replacement apparatus satisfies the requirements of the SME Technical Specification that applies to the Smart Metering System installed at the relevant premises, on the date of the installation of the replacement apparatus.

10 The obligation in paragraph 9 is subject to paragraph 11.

11 Paragraph 9:

- (a) does not apply where the replacement apparatus is a Prepayment Meter; and
- (b) ceases to apply from the date specified in the direction issued by the Secretary of State to the licensee in accordance with paragraph 39.5 of standard condition 39 of this licence.

Definitions

12 In this Condition:

Meter Asset Provider	means any person who provides apparatus forming part of a Smart Metering System at Domestic Premises but does not have responsibility for the maintenance of any such apparatus.
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Gas Supply Licence

Condition [No.] Smart Metering - Continuation of Arrangements on Change of Supplier

Application

- 13 This Condition applies in relation to Domestic Premises at which there is installed a Smart Metering System (the **relevant premises**).

Obligation on Old Supplier - Notification of Meter Asset Provider

- 14 This paragraph applies where:
- (a) immediately prior to the most recent Supplier Transfer the licensee was the Relevant Gas Supplier for the relevant premises (the **Old Supplier**); and
 - (b) the Gas Supplier that became the Relevant Gas Supplier for the relevant premises by virtue of the most recent Supplier Transfer (the **New Supplier**) is not, at the date of the most recent Supplier Transfer, the Meter Asset Provider for all of the apparatus forming part of the Smart Metering System at the relevant premises.

- 15 Where paragraph 2 applies the licensee must take such steps and do such things as are within its power to send, within [21] working days (or such other timescale agreed with the New Supplier or the Relevant Meter Asset Provider as the case may be) of the Supplier Transfer:

- (a) a Notice to the New Supplier giving:
 - (i) the name and contact details of each Meter Asset Provider providing any apparatus forming part of the Smart Metering System at the relevant premises (**Relevant Meter Asset Provider**); and
 - (ii) details of the apparatus provided by each Relevant Meter Asset Provider named in the Notice (the **Relevant Apparatus**),(a **MAP Notice**);
- (b) a Notice to each Relevant Meter Asset Provider (other than the licensee) giving the date of the most recent Supplier Transfer for, and the name of the New Supplier at, the relevant premises

Obligation on New Supplier - Arrangements with the Meter Asset Provider

- 16 This paragraph applies where the licensee is the New Supplier in relation to a relevant premises and

- (a) receives a MAP Notice from the Old Supplier; or
- (b) is contacted by a Relevant Meter Asset Provider.

17 Where:

- (a) paragraph 4 applies; and
- (b) the licensee does not have an agreement with the Relevant Meter Asset Provider for the provision of apparatus of the type provided by that Relevant Meter Asset Provider and forming part of the Smart Metering System installed at the relevant premises,

the licensee must take all reasonable steps to ensure that by no later than [6] months from the date of the MAP Notice:

- (c) it has entered into an agreement with the Relevant Meter Asset Provider for the provision of apparatus of the type provided by that Relevant Meter Asset Provider and forming part of the Smart Metering System installed at the relevant premises; and
- (d) the agreement includes terms in relation to the provision of the Relevant Apparatus at the relevant premises.

18 Where:

- (a) paragraph 4 applies; and
- (b) the licensee has an existing agreement with the Relevant Meter Asset Provider for the provision of apparatus of the type forming part of the Smart Metering System installed at the relevant premises, it must take all reasonable steps to ensure that by no later than [one] month from the date of the MAP Notice the existing agreement includes terms in relation to the provision of the Relevant Apparatus at the relevant premises.

Obligation on New Supplier - Return of Apparatus

19 Where the licensee is unable, in accordance with either paragraph 5 or 6 (as the case may be), to agree terms with the Relevant Meter Asset Provider in relation to the provision of Relevant Apparatus at the relevant premises within the period specified (the **relevant period**), it must take all reasonable steps to make available, by no later than [1] month after the expiry of the relevant period, the Relevant Apparatus for the purposes of its collection by the Relevant Meter Asset Provider.

20 Where paragraph 7 applies, the licensee must ensure that any Relevant Apparatus which is made available for collection with that paragraph is, the time it is collected by the Relevant Meter Asset

Provider, in the same condition in which it was when it last formed part of the Smart Metering System at the relevant premises.

Obligation on New Supplier - Replacing Apparatus

21 Where the licensee:

- (a) is the New Supplier in relation to a relevant premises;
- (b) returns (or is taking steps to return) Relevant Apparatus to the Relevant Meter Asset Provider pursuant to paragraph 7; and
- (c) installs, or arranges the installation of, replacement apparatus for that Relevant Apparatus,

it shall take all reasonable steps to ensure that the replacement apparatus satisfies the requirements of the SME Technical Specification that applies to the Smart Metering System installed at the relevant premises, on the date of the installation of the replacement apparatus.

22 The obligation in paragraph 9 is subject to paragraph 11.

23 Paragraph 9:

- (a) does not apply where the replacement apparatus is a Prepayment Meter; and
- (b) ceases to apply from the date specified in the direction issued by the Secretary of State to the licensee in accordance with paragraph 33.5 of standard condition 33 of this licence.

Definitions

24 In this Condition:

Meter Asset Provider	means any person who provides apparatus forming part of a Smart Metering System at Domestic Premises but does not have responsibility for the maintenance of any such apparatus.
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Annex D: Legal Text for Amendment to Operational Licence Condition

Condition 49: Smart Metering Systems and In-Home Displays - Operational Requirements

Application of Part A

49.1 Part A of this Condition applies to the licensee in respect of any Domestic Premises and any Designated Premises of Micro-Business Consumers at which:

- (a) it is the Relevant Electricity Supplier; and
- (b) there is installed a Smart Metering System,

(a relevant premises).

49.2 Part A of this Condition applies from:

- (a) the Effective Date in respect of any relevant premises where:
 - (i) the installation date of the Smart Metering System is a date after the Effective Date; or
 - (ii) the installation date of the Smart Metering System is a date on or prior to the Effective Date and the Smart Metering System is enrolled into the Smart Metering Inventory in accordance with the Enrolment Service provided by the DCC; and
- (b) the date specified in paragraph 39.1 of standard condition 39 of this licence in respect of any relevant premises which are Domestic Premises and where:
 - (i) the installation date of the Smart Metering System is a date on or prior to the Effective Date; and
 - (ii) the Smart Metering System is not enrolled into the Smart Metering Inventory in accordance with the Enrolment Service provided by the DCC.

Application of Part B

49.3 Part B of this Condition applies to the licensee from the Effective Date in respect of any Domestic Premises at which:

- (a) it is the Relevant Electricity Supplier;
- (b) there is installed a Smart Metering System; and

- (c) the Smart Metering System was installed on or after the Effective Date,
(a relevant IHD premises).

Part A: Smart Metering Systems

Smart Metering System - Operational Requirement

- 49.4 In respect of each relevant premises, the licensee must take all reasonable steps to ensure that:
- (a) there is established (whether directly, or indirectly through the DCC's Communications System), a Communications Link between the Smart Metering System and the licensee's Communications System;
 - (b) where the Communications Link established in accordance with paragraph (a) is not through the DCC's Communications System, it maintains the Communications Link;
 - (c) where the Communications Link established in accordance with paragraph (a) is through the DCC's Communications System, it does not act in a manner that compromises the maintenance of the Communications Link;
 - (d) the Smart Metering System is configured to operate in a way that enables the licensee, where requested to do so by the Customer at the relevant premises, to establish a Communications Link, through the HAN Interface, between the Smart Metering System and any Consumer Device (at the relevant premises) to which the Smart Metering System is capable of being connected (a **Relevant Consumer Device**);
 - (e) on request of the Customer at the relevant premises, it establishes and thereafter maintains a Communications Link, through the HAN Interface, between the Smart Metering System and each Relevant Consumer Device, such that it enables the Customer at the relevant premises to access, at any time and in the case of the Domestic Customer free of charge, by means of each Relevant Consumer Device, information of the type specified in paragraph 49.9 (**Customer Information**) that:
 - (i) is capable of being stored in or held by the Smart Metering System (or any part of it); and
 - (ii) the Smart Metering System (or any part of it) is capable of sending to the Relevant Consumer Device.

49.5 The obligations in paragraph 49.4 are subject to paragraphs 49.6 and 49.7.

Exception to SMS Operational Requirement - Premises of Micro-Business Consumers

49.6 The obligations in paragraph 49.4 do not apply in respect of a Designated Premises of a Micro-Business Consumer where the Smart Metering System at the premises is not enrolled into the Smart Metering Inventory in accordance with the Enrolment Service provided by the DCC.

Exception to SMS Operational Requirement - Domestic Premises

49.7 Subject to paragraph 49.8, the obligations in paragraph 49.4 do not apply in respect of a Domestic Premises where:

- (a) that Smart Metering System at the premises was not installed or arranged to be installed by the licensee; or
- (b) the licensee replaces any apparatus forming part of the Smart Metering System pursuant to paragraph 9 of Condition [XX - the Smart Metering Continuation of Arrangements on Change of Supplier].

49.8 The exceptions in paragraph 49.7 ~~applies~~ apply only until the earlier of:

- (a) the date that the Smart Metering System installed at the premises is enrolled into the Smart Metering Inventory in accordance with the Enrolment Service provided by the DCC; or
- (b) the date specified in paragraph 39.1 of standard condition 39 of this licence.

Customer Information

49.9 Customer Information is information which provides details of or relates to:

- (a) the quantity of electricity measured by the Electricity Meter as having been supplied by the licensee to the customer at the relevant premises;
- (b) where applicable, the quantity of electricity measured by the Export Meter as having been Exported from the relevant premises or an installation at the relevant premises onto a distribution system or transmission system;
- (c) Charges for the Supply of Electricity (including the standing charge (where applicable) and the unit rate (expressed where applicable in pence per kWh);
- (d) where the Electricity Meter forming part of the Smart Metering System is a Prepayment Meter:
 - (i) the amount of credit (by reference to sums of money) that at any given time remains available for use by the customer;

- (ii) the amount of Outstanding Charges (if any and by reference to sums of money being recovered through calibration of the Prepayment Meter), the level of such Outstanding Charges, and the period within which such Outstanding Charges are to be recovered.

Part B: In-Home Displays

In-Home Display - Operational Requirement

- 49.10 The licensee must ensure that any In-Home Display provided by it, pursuant to its obligations in Condition 40, to a Domestic Customer at any relevant IHD premises is during the Relevant Period configured to operate in such a manner as to comply with the requirement of paragraph 49.12.
- 49.11 The obligation in paragraph 49.10 is subject to paragraph 49.14.
- 49.12 Subject to paragraph 49.13, the requirement of this paragraph is that the Domestic Customer can, at any time during the Relevant Period and free of charge, access by means of the In-Home Display all information:
- (a) which is communicated to it from the Smart Metering System through the HAN Interface; and
 - (b) which the In-Home Display is required to be capable of displaying in accordance with the requirements of the IHD Technical Specification applicable at the date that the In-Home Display is provided to the Domestic Customer.
- 49.13 Except where the Electricity Meter forming part of the Smart Metering System is a Prepayment Meter, the In-Home Display need not be configured to operate so as to enable the Domestic Customer to access information which provides details of or relates to:
- (a) the amount of credit (by reference to a sum of money) that may be, or is, available to the Domestic Customer; or
 - (b) Outstanding Charges.

Exception to IHD Operational Requirement

- 49.14 Where the Smart Metering System at the relevant IHD premises was not installed or arranged to be installed by the licensee, the obligation in paragraph 49.10 applies only from such date as is specified in a direction issued by the Secretary of State under this paragraph.

Part C: Definitions

Definitions and Interpretation

49.15 In this Condition:

Consumer Device	means: <ul style="list-style-type: none">(a) an In-Home Display; and(b) any other device which:<ul style="list-style-type: none">(i) is capable of providing the Domestic Customer or the Micro-Business Customer (as the case may be) with access (whether directly or indirectly) to Customer Information; and(ii) is capable of being, and can be, connected to the Smart Metering System through the HAN Interface.
Communications Link	has the meaning given to it in the SME Technical Specification.
Communications System	means a system (or part of it) that can generate, send, receive, store, or otherwise process electronic communications from and to the Smart Metering System.
DCC	means the holder of the DCC Licence.
DCC Licence	means the licence for the provision of a smart meter communication service granted pursuant to section 6(1)(f) or section 6(1A) of the Electricity Act 1989.
Effective Date	means [date the Condition takes effect to be inserted].
Enrolment Service	has the meaning give to that term from time to time in the DCC Licence;

HAN Interface	has the meaning given to it in the SME Technical Specification.
Micro-Business Consumer	has the meaning given to it in Standard Condition 7A of the Standard Conditions for Electricity Supply Licences.
Relevant Period	means the period which commences on the date on which the Smart Metering System is installed at the relevant IHD premises and ends 12 months after that date.
Smart Metering Inventory	has the meaning give to that term from time to time in the DCC Licence.

Condition 43: Smart Metering Systems and In-Home Displays - Operational Requirements

Application of Part A

- 43.1 Part A of this Condition applies to the licensee in respect of any Domestic Premises and any Designated Premises of Micro-Business Consumers at which:
- (a) it is the Relevant Gas Supplier; and
 - (b) there is installed a Smart Metering System,
- (a relevant premises).
- 43.2 Part A of this Condition applies from:
- (a) the Effective Date in respect of any relevant premises where:
 - (i) the installation date of the Smart Metering System is a date after the Effective Date; or
 - (ii) the installation date of the Smart Metering System is a date on or prior to the Effective Date and the Smart Metering System is enrolled into the Smart Metering Inventory in accordance with the Enrolment Service provided by the DCC; and

- (b) the date specified in paragraph 33.1 of standard condition 33 of this licence in respect of any relevant premises which are Domestic Premises and where:
 - (i) the installation date of the Smart Metering System is a date on or prior to the Effective Date; and
 - (ii) the Smart Metering System is not enrolled into the Smart Metering Inventory in accordance with the Enrolment Service provided by the DCC.

Application of Part B

43.3 Part B of this Condition applies to the licensee from the Effective Date in respect of any Domestic Premises at which:

- (a) it is the Relevant Gas Supplier;
- (b) there is installed a Smart Metering System; and
- (c) the Smart Metering System was installed on or after the Effective Date,
(a relevant IHD premises).

Part A: Smart Metering Systems

Smart Metering System - Operational Requirement

- 43.4 In respect of each relevant premises, the licensee must take all reasonable steps to ensure that:
- (a) there is established (whether directly, or indirectly through the DCC's Communications System), a Communications Link between the Smart Metering System and the licensee's Communications System;
 - (b) where the Communications Link established in accordance with paragraph (a) is not through the DCC's Communications System, it maintains the Communications Link;
 - (c) where the Communications Link established in accordance with paragraph (a) is through the DCC's Communications System, it does not act in a manner that compromises the maintenance of the Communications Link;
 - (d) the Smart Metering System is configured to operate in a way that enables the licensee, where requested to do so by the Customer at the relevant premises, to establish a Communications Link, through the HAN Interface, between the Smart Metering System and any Consumer Device (at the relevant premises) to which the Smart Metering System is capable of being connected (a **Relevant Consumer Device**);

(e) on request of the Customer at the relevant premises, it establishes and thereafter maintains a Communications Link, through the HAN Interface, between the Smart Metering System and each Relevant Consumer Device, such that it enables the Customer at the relevant premises to access, at any time and in the case of the Domestic Customer free of charge, by means of each Relevant Consumer Device, information of the type specified in paragraph 43.9 (**Customer Information**) that:

- (i) is capable of being stored in or held by the Smart Metering System (or any part of it); and
- (ii) the Smart Metering System (or any part of it) is capable of sending to the Relevant Consumer Device.

43.5 The obligations in paragraph 43.4 are subject to paragraphs 43.6 and 43.7.

Exception to SMS Operational Requirement - Premises of Micro-Business Consumers

43.6 The obligations in paragraph 43.4 do not apply in respect of a Designated Premises of a Micro-Business Consumer where the Smart Metering System at the premises is not enrolled into the Smart Metering Inventory in accordance with the Enrolment Service provided by the DCC.

Exception to SMS Operational Requirement - Domestic Premises

43.7 Subject to paragraph 43.8, the obligations in paragraph 43.4 do not apply in respect of a Domestic Premises where:

- (a) that Smart Metering System at the premises was not installed or arranged to be installed by the licensee; or
- (b) the licensee replaces any apparatus forming part of the Smart Metering System pursuant to paragraph 9 of Condition [xx - the Smart Metering Continuation of Arrangements on Change of Supplier].

43.8 The exceptions in paragraph 43.7 ~~applies~~ apply only until the earlier of:

- (a) the date that the Smart Metering System installed at the premises is enrolled into the Smart Metering Inventory in accordance with the Enrolment Service provided by the DCC; or
- (b) the date specified in paragraph 33.1 of standard condition 33 of this licence.

Customer Information

43.9 Customer Information is information which provides details of or relates to:

- (a) the quantity of gas measured by the Gas Meter as having been supplied by the licensee to the customer at the relevant premises;
- (b) Charges for the Supply of Gas (including the standing charge (where applicable) and the unit rate (expressed where applicable in pence per kWh);
- (c) where the Gas Meter forming part of the Smart Metering System is a Prepayment Meter:
 - (i) the amount of credit (by reference to sums of money) that at any given time remains available for use by the customer;
 - (ii) the amount of Outstanding Charges (if any and by reference to sums of money being recovered through calibration of the Prepayment Meter), the level of such Outstanding Charges, and the period within which such Outstanding Charges are to be recovered.

Part B: In-Home Displays

In-Home Display - Operational Requirement

- 43.10 The licensee must ensure that any In-Home Display provided by it, pursuant to its obligations in Condition 34, to a Domestic Customer at any relevant IHD premises is during the Relevant Period configured to operate in such a manner as to comply with the requirement of paragraph 43.12.
- 43.11 The obligation in paragraph 43.10 is subject to paragraph 43.14.
- 43.12 Subject to paragraph 43.13, the requirement of this paragraph is that the Domestic Customer can, at any time during the Relevant Period and free of charge, access by means of the In-Home Display all information:
- (a) which is communicated to it from the Smart Metering System through the HAN Interface; and
 - (b) which the In-Home Display is required to be capable of displaying in accordance with the requirements of the IHD Technical Specification applicable at the date that the In-Home Display is provided to the Domestic Customer.
- 43.13 Except where the Gas Meter forming part of the Smart Metering System is a Prepayment Meter, the In-Home Display need not be configured to operate so as to enable the Domestic Customer to access information which provides details of or relates to:
- (a) the amount of credit (by reference to a sum of money) that may be, or is, available to the Domestic Customer; or

(b) Outstanding Charges.

Exception to IHD Operational Requirement

43.14 Where the Smart Metering System at the relevant IHD premises was not installed or arranged to be installed by the licensee, the obligation in paragraph 43.10 applies only from such date as is specified in a direction issued by the Secretary of State under this paragraph.

Part C: Definitions

Definitions and Interpretation

43.15 In this Condition:

Consumer Device	means: (c) an In-Home Display; and (d) any other device which: (i) is capable of providing the Domestic Customer or the Micro-Business Customer (as the case may be) with access (whether directly or indirectly) to Customer Information; and (ii) is capable of being, and can be, connected to the Smart Metering System through the HAN Interface.
Communications Link	has the meaning given to it in the SME Technical Specification.
Communications System	means a system (or part of it) that can generate, send, receive, store, or otherwise process electronic communications from and to the Smart Metering System.
DCC	means the holder of the DCC Licence.
DCC Licence	means the licence for the provision of a smart meter communication service granted pursuant to section

	7AB of the Gas Act 1986.
Effective Date	means [date that the Condition takes effect to be inserted].
Enrolment Service	has the meaning give to that term from time to time in the DCC Licence;
HAN Interface	has the meaning given to it in the SME Technical Specification.
Micro-Business Consumer	has the meaning given to it in Standard Condition 7A of the Standard Conditions for Gas Supply Licences.
Relevant Period	means the period which commences on the date on which the Smart Metering System is installed at the relevant IHD premises and ends 12 months after that date.
Smart Metering Inventory	has the meaning give to that term from time to time in the DCC Licence.

Annex E: Adoption Criteria

Requirement	Criteria
Core Services	Must support the provision of the core communications services by DCC relevant to SMETS1 meters (for example this excludes certain capabilities of SMETS2 meters related to load control and data on maximum and minimum demand)
Terms and Conditions	Reasonable Terms and Conditions as defined below
Novation Clause	Satisfactory clause to enable adequate contract novation to the DCC, or an agreement at the time of enrolment to enter into a contract with the DCC on equivalent terms
Termination	<p><i>Reasonable</i> term remaining on the contract, or a clause allowing rollover of the contract by mutual consent. The only right of termination by the communications provider must be for non-payment and this would be on similar terms to those envisaged for the CSP contracts</p> <p>Notice period for DCC terminating provision of communications to an individual connection point should be 3 months maximum</p> <p>DCC will have immediate right of termination for material breach of contract</p> <p>No right for the service provider to receive compensation at the natural expiry of the contract or in the event that the contract is terminated for default on the part of the service provider</p>
Liability	Liability limit for communications provider proportionate to the value of the contract, as would be <i>reasonably</i> expected in this market
Loss	Contract addresses communications provider liability for loss and requirement for <i>appropriate</i> insurance cover
Exclusivity and restrictive terms	Any restrictive terms relating to the energy supplier and the communications provider will need to fall away at the point of novation
Data ownership and security	<p>Contract includes an undertaking to not process data in a way that would put DCC in breach of the obligations that it owes to SEC parties under data protection legislation</p> <p>Contract imposes obligations upon the communications provider that are required to support DCC's discharge of the obligations it faces under the SEC in relation to end to end security</p> <p>Contract doesn't attempt to absolve the communications provider from liability with respect to security breaches; penalties sufficiently incentivise the communications provider to comply with security requirements</p>
Confidentiality	Contract must contain confidentiality provisions consistent with the DCC's obligations under SEC, such as those that restrict use of information other than for the purposes of this agreement
Disaster recovery and business continuity and incident management	Contract has clear responsibilities and plans for Disaster Recovery. Also contains <i>appropriate</i> provisions with regard to risk management, business continuity and incident management

Requirement	Criteria
Intellectual Property Rights	Contract must provide for the transfer, or royalty free licensing, of IPR for IP developed in the entering into or performance of the foundation contract
Service Level Agreement - Availability - Fault Resolution - Network performance	SLAs exist and as a minimum provide service level expectations and incentives related to network availability, resolution of faults and network performance characteristics that are commensurate with the needs of the core service Novated SLAs can be maintained under a DCC environment with penalties for poor performance
Transparency and compliance	The contract contains nothing that would put the DCC in breach of its regulatory obligations

Additional Requirements	Additional requirements that will need to be included in the contract between DCC and the communications provider are set out below
Change of control	Novation terms agreed must include the ability to novate to a successor DCC licensee and not to contain any restrictions on change of control to DCC or successor
Provision of information to DCC	Supports the provision of information to DCC to help DCC discharge its obligation to produce a development plan. Supports the provision of information to DCC where DCC is required to provide it due to a request from Government/Ofgem.
Liability or sums owing	Accrued rights and liabilities do not transfer to the DCC
Reasonable payment terms	Payment terms from DCC to communications provider must be a workable period in arrears, consistent with DCC's arrangements for invoicing under the SEC
Performance Monitoring	Obligation to report on performance of services, including sub-contractors, that support DCC fulfilling its reporting obligations under its licence and the SEC.
Dispute or poor performance resolution	DCC is satisfied that there are no material disputes outstanding between communications provider and supplier, the outcome of which will need to be reflected in the communications provider contract with the DCC May need the ability to join certain disputes under the contract with SEC disputes on equivalent matters that have been referred to the Authority/independent arbitration (policy depends on the approach adopted by SEC, DCC and ESPs)

Words in italics acknowledge that for many criteria the DCC will be required to negotiate with suppliers and form a view as to whether enrolment is beneficial. This may require dispute resolution as a last resort if parties are unable to reach agreement

Glossary

Adoption

The process by which a Foundation communications contract is novated from the supplier who entered into it to the DCC for on-going management.

Adoption Criteria

The criteria a communications contract must meet to be eligible for Adoption

Advanced Meter

A meter which, either on its own or with an ancillary device, stores measured electricity or gas consumption data for multiple time periods, and provides remote access to such data by the licensee.

Application Layer

The application layer is the language the meter uses to communicate with supplier systems. Typical languages are Zigbee, DLMS and M-BUS.

Communications Hub

A device located at the consumer's premises which will have the capability to communicate and transfer data between smart metering equipment and the smart metering WAN.

Communications Service Provider (CSP)

Bodies awarded a contract to be a service provider of the DCC's communications services.

Data and Communications Company (DCC)

The new entity that will be licensed to deliver central data and communications activities.

Data Services Provider (DSP)

Body awarded the contract to deliver systems integration, application management and IT hosting services to the DCC.

Data Enrolled

Data services are provided by the DSP. Communications services are provided by a Foundation communications provider via an adopted contract and using a communications hub provided by the supplier.

Device Language Message Specification (DLMS)

An Application Layer protocol.

Distribution Network Operators (DNOs)

Companies that are licensed to take electricity off the high-voltage transmission system and distribute it, over low-voltage networks, to consumers.

Dumb Meters

Traditional electricity and/or gas meters without smart functionality.

Enrolment

The process of incorporating a meter into management by the DCC's DSP, including commercial negotiation.

Enrolment Criteria

The criteria a meter must meet to be eligible for Enrolment.

Foundation Meters

Smart Meters installed during the Foundation Stage.

Foundation Stage

The period prior to the start of the Mass Roll-out stage.

Foundation Smart Market

During the Foundation Stage, the Government envisages a 'Foundation Smart Market' wherein consumers who wish to receive a smart metering system and suppliers who wish to offer one can do so, with appropriate consumer protection, risk allocation and without market distortion.

Fully Enrolled

Data services are provided by the DSP. Communications services are provided by the CSP.

In-Home Display (IHD)

An electronic device, linked to smart metering system, which provides information on a consumer's energy consumption.

Mass Roll-out stage

The period between the date at which the DCC starts providing core communications services and the fulfilment of the roll-out obligation as specified in the roll-out licence conditions.

Meter Asset Provider (MAP)

Under the competitive metering market arrangements Meter Asset Providers fund meters and seek to recoup the asset value of each meter from whichever energy supplier is currently using it to supply energy at premises at which it is installed.

Smart Change of Supplier (Smart CoS)

The situation where, upon change of supplier events, the consumer generally retains smart functionality and SMETS compliant smart meters command a smart rent, irrespective of whether they are operated in smart mode.

Smart Energy Code (SEC)

The Code, spanning gas and electricity, which will be established to provide arrangements for the introduction and on-going operation of the End-to-end Smart Metering System. Among other things, the Code will detail the relationships between the DCC and the users of its data and communications services. Suppliers, network operators and other users of the DCC's services will need to comply with the Code.

Smart Meter

A meter which, in addition to traditional metering functionality (measuring and registering the amount of energy which passes through it), is capable of providing additional functionality; for example, two-way communication allowing it to transmit meter readings and receive data remotely.

Smart Metering Equipment Technical Specification (SMETS)

The document designated by the Secretary of State to describe the minimum capabilities of equipment installed to satisfy the roll-out licence conditions placed on suppliers.

Smart Metering Implementation Programme (SMIP or the Programme)

The overall programme to deliver smart metering in Great Britain, put in place following the Government's December 2009 response to consultation. The SMIP is overseen by DECC.

Smart Meter System Operator (SMSO)

In the Foundation market, ahead of the establishment of the DCC, companies that are offering data and/or communications services on a commercial basis.

Wide Area Network (WAN)

The network that is used for two way communication between smart metering equipment in consumers' premises and the DCC.

ZigBee

An application layer standard, administered by the ZigBee Alliance.

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