Department of Energy & Climate Change

Baroness Verma of Leicester
Parliamentary Under Secretary of State

Department of Energy & Climate Change
3 Whitehall Place,
London
SW1A 2AW

http://www.gov.uk/decc

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SMART METERS PROGRAMME

NON-DOMESTIC MARKET: PROPOSED AMENDMENTS TO ROLL-OUT LICENCE CONDITIONS

Summary

The Government is seeking views (paragraphs 1-15) on whether the period within which advanced metering may be installed at smaller non-domestic sites as a contribution to the overall smart metering roll-out obligation should be extended beyond 5 April 2014. The Government also proposes to address possible ambiguity about the type of contractual arrangements that permit installation of advanced metering after 5 April 2014 (paragraphs 17-19).

The Government is seeking views on two other matters. Paragraphs 20-24 set out proposals to amend the electricity roll-out licence to ensure that all non-domestic sites in Profile Classes 1-4 are covered by the conditions. Paragraphs 25-27 propose minimum customer rights of access to data, as foreshadowed in the Government Response to the Smart Metering Data Access and Privacy consultation.

The Government would welcome views on these matters by Friday, 23 August 2013.

I. Introduction

1. This open letter seeks views on the appropriate period during which advanced meters[1] may be installed at smaller non-domestic sites as a contribution towards the overall smart metering roll-out obligation. The ability to install advanced meters represents an exception to the smart metering roll-out licence conditions[2]. Where

[1] Advanced meters are defined as being able, at a minimum, to provide half-hourly electricity or hourly gas data that may be remotely accessed by a supplier and be available to the customer on a timely basis.
[2] [Link]

advanced meters are installed under these exceptions, they may remain in place beyond the end-date for the smart metering roll-out but, thereafter, must be replaced with smart meters once they reach the end of their lives, unless they are required to be advanced for technical reasons. Meters newly installed after the end-date should also be smart.

2. At present, these exceptions allow the installation of advanced meters to meet the roll-out obligation at electricity sites in Balancing and Settlement Code profile classes 3 and 4 and gas sites with annual consumption of less than 732 MWh:

- until 5 April 2014; and
- after 5 April 2014 where there is an existing contractual arrangement.

3. Under the roll-out licence conditions, advanced metering will also be installed where there is a current transformer electricity meter or a larger gas meter. This letter does not affect these exemptions.

II. Exception for installations of advanced metering until 5 April 2014

Background

4. The May 2009 smart metering consultation[3] proposed that smaller non-domestic sites should receive smart metering, with exceptions to allow for individual customer requirements. The December 2009 consultation response[4] refined this position. It noted in particular the significant (13%) electricity demand of smaller sites, and the scope for smart functionality to support future smart grids. It recognised that the same considerations did not apply to gas, but considered it desirable from a customer viewpoint to take a similar approach to both fuels.

5. However, the response also recognised that there was an established, active advanced metering market that was providing early energy and carbon savings. It therefore proposed exceptions to a smart mandate that would allow continued installation of advanced metering until 5 April 2014, and thereafter where there was a pre-existing contractual arrangement. The exceptions were seen as being particularly useful to multi-site organisations that had already installed advanced metering in part of their portfolio. In that context, such installation had been incentivised by DECC's Carbon Reduction Scheme and the Office of Government Commerce's Framework Agreement for installation of AMR. The response considered that such exceptions would allow customers to continue to enjoy benefits from advanced metering, without the risk of their investment being stranded, and would enable those serving the advanced metering and data services market to continue to do so.

6. In terms of timing, 5 April 2014 marked the end-date for the 2009 licence conditions mandate for advanced metering at medium and larger sites (for electricity, those in Balancing and Settlement Code Profile Classes 5-8; for gas, those with annual consumption of more than 732 MWh). Customers at such sites were also likely to have smaller sites at which they might well want to use similar metering and data services. This date was also expected to fall after the point at which smart meters meeting a final technical specification would be widely available. The exceptions therefore permitted a

[3] Energy Metering: A Consultation on Smart Metering for Electricity and Gas, DECC, May 2009

[4] Towards a Smarter Future: Government Response to the Consultation on Electricity and Gas Smart Metering, DECC, December 2009

wind-down from advanced metering by all parties, and seamless access to a fully functioning smart metering system.

7. The July 2010 consultation on a Smart Metering Prospectus[5] sought views on this approach, and it was confirmed in the March 2011 Response to the Prospectus consultation[6]. In August 2011, the Government consulted on licence conditions giving effect to the policy; these conditions, with necessary changes, were confirmed in April 2012[7] and took effect on 30 November 2012.

8. This policy and its effects are reflected in DECC's Impact Assessment for smart meters[8], which assumes that 23% of electricity, and 40% of gas, sites will use advanced metering. These percentages include the "smart-type" electricity metering with two-way communications currently being deployed by some suppliers, "traditional" advanced metering, and the 25,000 current transformer electricity meters and around 400,000 larger gas meters that will receive advanced functionality for technical reasons. The Impact Assessment assumes lower benefits for advanced meters compared with smart meters, although the difference in functionality and benefits is more significant for electricity than for gas. However, as advanced metering can often be more easily delivered - for instance, through retrofitting traditional meters - it can also enable simpler, earlier provision of functionality and delivery of benefits.

Discussion and proposals

9. Since 2010, the Programme has undertaken extensive work on the delivery of smart metering, including the development of a technical specification for smart metering systems and of arrangements for the Data and Communications Company (DCC), the central body that will handle communications to and from smart meters. The decision on the successful bidders for the range of DCC-related services is expected to be announced in Summer 2013.

10. Bidders for both the DCC licence and DCC service contracts have consistently told the Programme that more time than previously envisaged will be needed if the mass roll-out is to get off to the best possible start and to ensure a good quality experience for consumers. The Programme therefore now expects suppliers to be ready to start their full scale roll-out by Q4 2015, supported by DCC services, and to complete the roll-out by the end of 2020 The roll-out licence conditions will be modified accordingly.

11. As noted in paragraph 6, the end-date of 5 April 2014 for the advanced exception coincided with the end-date for the roll-out of advanced metering under the 2009 Licence Condition. It also originally reflected an assumption that smart meters and DCC services would be available by then or shortly afterwards. As the projected availability of SMETS 2 meters and DCC services will now be Q4 2015, the Programme considers that there are arguments for extending the period during which advanced meters may continue to be installed.

12. At the same time, the Government considers it desirable that the use of smart metering in the smaller non-domestic market should be maximised, because its more extensive and sophisticated functionality offers the widest range of benefits to all

[5] Smart Metering Implementation Programme: Prospectus, Ofgem, July 2010
[6] Smart Metering Implementation Programme: Response to Prospectus Consultation, Ofgem, March 2011
[7] [add]
[8] [Link to IA]

parties. There are also some drawbacks in having a larger population of advanced meters, in particular around interoperability. The first version of the Smart Metering Equipment Technical Specification (SMETS1) was developed to enable suppliers to deploy smart meters during the period before the DCC is available if they so wished. Such deployment 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.

13. It is, therefore, the case that, in the period between April 2014 and the end of 2015, suppliers could install SMETS 1 meters, with benefits for themselves and their customers.

14. However, the Government recognises that, in the non-domestic market, there may be particular challenges for small suppliers, both in sourcing and installing SMETS 1 meters and in establishing the internal systems needed to communicate with them and utilise their data. In these circumstances, some - especially small suppliers and third parties - might prefer to wait for mass roll-out before installing new metering at their customers' sites, and might, in the absence of adjustment of the advanced exception, simply wait for SMETS 2 meters and DCC services to be available, thus deferring the benefits of new metering for all parties. This would represent a significant loss of momentum in the move to smarter metering in the non-domestic sector: by the end of March 2012, over 500,000 advanced (predominantly smart-type) meters had already been installed by larger suppliers in non-domestic sites subject to the roll-out obligation, enabling early realisation of benefits for those customers.

15. The Government is therefore minded to extend the period within which advanced meters can be installed. There are two ways in which this could be done: by reference to a specific date; or by reference to a point where key criteria had been met, with industry being provided with suitable notice of the end of the exception. On the former approach, there are in turn two options: the period could be extended to April 2015, to enable suppliers and their agents time to prepare for installation of SMETS 1 meters, or April 2016, when we expect SMETS 2 meters and DCC services to be very widely available. These would also represent common commencement dates for secondary legislation. On the latter approach, the exception would be extended to the point at which SMETS 2 meters were commercially available in volumes appropriate to a mass roll-out. However, under this option, the end of the exception period would be determined by reference to criteria, and industry would be given notice of the conclusion of the exception period in due course. An appropriate notice period might be expected to be 6-12 months.

16. In reaching a final decision, the Government would welcome views on:

- **whether the period during which advanced meters can be installed should be extended**
- **the impact on the non-domestic metering market if the exception period were not extended**
- **what effects any extension would have on the operation of the supply market**

- **whether any arrangements should apply in the same way to both electricity and gas meters**
- **if it should be extended, whether it should be extended to:**
    - **April 2015;**
    - **April 2016; or**
    - **a date that would be designated in due course with an appropriate notice period (for example, six or twelve months)**

III. Exception for advanced installations after 5 April 2014

17. The exceptions allowing continued installation of advanced metering after 5 April 2014 where contractual arrangements were in place were designed to address circumstances in which a customer had reached an arrangement - whether with a supplier or another party - for the installation of advanced metering. Such advanced metering could be integral, or the advanced functionality could be achieved through the use of traditional metering with ancillary equipment.

18. The Programme has become aware that questions have arisen as to whether the reference to "contractual arrangements" in the licence drafting may be interpreted as meaning not, or not only, a contractual arrangement between a customer and a supplier or third party, but also a contractual arrangement between a supplier and a third party that does not involve the customer. An example of this would be a contract between a supplier and a meter operator. This was not the Government's intention. In case there should be any uncertainty for market participants - whether customers, suppliers, meter operators or other parties - the Government intends to amend the roll-out licence condition to make clear that the contractual arrangement permitting continued installation of advanced metering must be one that directly involves the customer.

19. The Government would welcome views on this proposal.

Definition of non-domestic electricity sites

20. The approach to defining "designated" (that is, non-domestic) sites in the electricity roll-out licence condition follows that taken by the 2009 licence condition for medium and larger sites. Rather than simply following the definition of non-domestic sites in Condition 7 of the Supply Licence, the sites are therefore defined by reference to the Balancing and Settlement Code (BSC) Profile Classes into which meters are expected to fall - in this case Classes 3 and 4.

21. However, suppliers' experience in installing smart, smart-type and advanced metering indicates that between 5% and 10% - 100,000-200,000 - of smaller non-domestic sites may fall within Profile Classes 1 and 2 (which overwhelmingly comprise domestic sites) because the meter is:

- wrongly categorised (for instance, because of change of use); or
- correctly categorised, but is a non-domestic meter because the site is supplied under a group non-domestic contract (for instance, a staff home on a larger non-domestic site).

22. The Government therefore proposes to amend the electricity roll-out licence condition to state that all non-domestic sites in Profile Classes 1-4 fall within the meaning of "designated premises". This would avoid the risk of inadvertently omitting premises

from the roll-out, ensure congruity with the remainder of the Supply Licence and give clarity to suppliers.

23. Non-domestic gas sites are defined in a different way, and are not affected by this proposal.

24. The Government would welcome views on the appropriateness of amending the definition of non-domestic premises to mean all non-domestic sites in Profile Classes 1-4.

Provision of information to customers

25. The advanced metering exceptions to the roll-out licence conditions require customers to have timely access to the half-hourly electricity and hourly gas consumption data that these meters must, as a minimum, be able to provide. In its December 2012 response to the Data Access and Privacy consultation[9], the Government said that it would also make this a minimum requirement for non-domestic customers with smart meters. In practice, customers whose meters are opted in to the services of the Data and Communications Company (DCC) will have access to a minimum level of detailed information, including via the Home Area Network. For their part, we expect that customers whose meters are opted out of DCC services will ordinarily have contracted for access to detailed information, either with their supplier or from a third party. However, this amendment of the roll-out licence condition would ensure their right of access to this information and thus contribute towards customer engagement with the smart metering system.

26. **The Government would welcome views on incorporating this minimum requirement for information provision in the definition of a Smart Metering System at designated premises in the roll-out licence conditions.**

27. As indicated above, the proposals set out in this Letter would require minimal changes to the drafting of the current licence conditions. The Smart Meters Programme will test any new legal drafting with interested parties before it is laid before Parliament.

IV. Next steps

28. I should be grateful if you would send any comments on the issues raised in this letter to: Geoff Hatherick, Smart Meters Programme, Lower Ground Floor, 1 Victoria Street, London SW1H 0ET - geoff.hatherick@decc.gsi.gov.uk (telephone: 0300 068 6083) by Friday, 23 August 2013. If you would like your response to be treated as confidential (and so not published), please make this clear. The Programme intends to publish its decisions in Autumn 2013 in the light of comments received.

BARONESS VERMA

[9] [reference]