



# Smart Metering Implementation Programme

## Foundation Smart Market

The Government's final response to the consultation on the Foundation Smart Market

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# General information

## Purpose of this Document

This Response lays out the Government's final 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 also sets out the legal drafting related to these policies.

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**Territorial extent:** This document 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.

Responses should be clearly marked Foundation Smart Market (URN 13D/195). Responses and any enquiries related to the consultation should be addressed to:

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# 1. Executive Summary

## Background

- 1.1. The Foundation Smart Market document of May 2013 (“the May document”) set out the Government’s decision to introduce three new licence conditions to improve industry practices and commercial arrangements associated with change of supplier for customers with SMETS-compliant meters (“Licence Conditions 1–3”). Views were sought on draft legal text to support the licence conditions, on the proposed effective dates and on exemptions for small suppliers and prepayment customers.
- 1.2. The May document also consulted on a potential fourth licence condition, which would require energy suppliers to continue to provide remote meter reads when gaining a consumer with a SMETS-compliant metering system (“Licence Condition 4”). Views were sought on the merits and impacts of this condition, and on whether small suppliers should be exempt.
- 1.3. In addition, the May document set out options for enrolling SMETS1 metering systems into the DCC, outlined the enrolment and adoption process, and consulted on three charging options.
- 1.4. Twenty one responses were received to this consultation. The respondents comprised a broad mix of large and small energy suppliers, Meter Asset Providers, service providers, trade bodies, consumer bodies and other interested parties.

## Purpose of this Document

- 1.5. This document sets out the Government’s response to the May consultation, summarises the consultation responses and sets out the Government’s analysis and conclusions on:
  - effective dates for, and exemptions from, Licence Conditions 1-3 (Section 3);
  - Licence Condition 4 (Section 3);
  - the charging mechanism for allocating the on-going communications costs of SMETS1 metering equipment enrolled in the DCC (Section 4);
  - clarification of the enrolment criteria (Section 4); and
  - the final legal text for Licence Conditions 1 to 3 (Annex A).
- 1.6. A summary of the Government’s conclusions is set out below. The Government believes that the overall package of measures on the Foundation market has made a significant contribution towards avoiding stranded SMETS-compliant assets, will not imbalance the market nor provide perverse incentives on suppliers to increase their SMETS1 meter deployment.

## Smart Change of Supplier – Summary of Decisions

- 1.7. The May document proposed that Licence Conditions 1-3 should become effective in December 2013. However, the Government has taken account of concerns raised by a number of respondents that introducing Licence Condition 3 too early could have unintended consequences for energy suppliers and consumers and has decided that

**Licence Condition 3 should become effective from April 2014.** This will provide additional time for suppliers to put in place the necessary supply chain, commercial and operational arrangements to facilitate the exchange of SMETS-compliant meters in all geographical areas. As Licence Conditions 1-3 are intended to operate in combination, the Government has decided that **Licence Conditions 1 and 2 should also become effective from April 2014.**

- 1.8. Having reviewed the impact of the licence conditions on small suppliers the Government has concluded that they could be disproportionately exposed to the commercial risks and costs associated with putting in place arrangements to enable meter replacement under Licence Condition 3. The Government has therefore decided that **there will be an exemption for small suppliers from Licence Condition 3.**
- 1.9. The Government is encouraged by the work that has been done to date to facilitate the operation of prepayment meters during Foundation, and is keen to see further progress by all parties in advance of mass rollout so that the benefits of smart metering are available to more pre-payment customers as soon as practicable. However, at this stage it has decided **not to apply Licence Condition 3 where the replacement meter is a prepayment meter.**
- 1.10. Having carefully considered responses to the consultation, the **Government has decided against introducing Licence Condition 4.** The Government continues to encourage suppliers to put in place arrangements so that customers with smart meters who switch supplier during the Foundation can continue to receive smart benefits (such as accurate billing). However, the Government is not persuaded of the benefit of additional regulation in this area at this point in time.

## **Enrolment and Adoption – Summary of Decisions**

- 1.11. The **Government has concluded that option 2 should be implemented,** whereby the Foundation communications costs will be paid by the supplier responsible for the meter, as long as it is the installing supplier. If the meter has churned, the supplier will pay the same charges as for a SMETS2 meter.
- 1.12. While the Government recognises that there are common benefits associated with the enrolment of SMETS1 meters, only the installing supplier has clear visibility and control of the on-going communications costs. Other suppliers only accrue benefits if they gain such customers. It is also reasonable to assume that suppliers who have agreed communications contracts in the Foundation period are expecting to bear the costs of those, at least until a meter churns to another supplier.

## 2. Introduction

- 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.
- 2.3. The Foundation Stage provides an opportunity for the industry to gain valuable learning and experience to inform its preparations for mass roll-out, while at the same time bringing forward the realisation of customer benefits.
- 2.4. Some energy suppliers are pursuing a strategy of installation of substantial numbers of SMETS1-compliant meters, whereas others are waiting for SMETS2-compliant metering equipment to be available and/or the DCC to be in place before installing at scale. Therefore not all suppliers yet have the capability to operate SMETS1 metering equipment in smart mode.
- 2.5. There is therefore a risk that, upon customer switching, a gaining supplier might decide to replace a SMETS1-compliant meter with its own dumb meter, stranding the asset. Alternatively, the gaining supplier might decide to operate the SMETS-compliant meter as a dumb meter until the DCC enrolls the meter.
- 2.6. The package of measures that is set out within this document aims to support the development of the Foundation market in a controlled manner by: including Licence Conditions to support the smart change of supplier process; ensuring consumers who switch supplier continue to realise the benefits of smart metering; reducing the likelihood that SMETS-compliant assets will be stranded; and introducing policies to facilitate the enrolment of SMETS1-compliant meters into the DCC.



# 3. Smart Change of Supplier

## Introduction

- 3.1. The May 2013 consultation document set out the Government's decision that three new Supply Licence conditions ("Licence Conditions 1-3") should be introduced and proposed that these should take effect from December 2013. Views were sought on the effective dates and on whether there should be certain exemptions from these obligations for smaller suppliers and prepayment customers. Comments were also invited on the draft legal text for Licence Conditions 1-3.
- 3.2. The May document further proposed a fourth licence condition ("Licence Condition 4"). Views were invited on the merits of this licence condition, on the operational and commercial impacts of its introduction, and on whether smaller suppliers should be exempt. It was proposed that this condition could be introduced from April 2014.
- 3.3. The four licence conditions are summarised below:

### **Licence Condition 1 – 'MAP Identity Provision'**

- 3.4. 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 the details of the gaining supplier. This will allow the gaining supplier and MAP to initiate a commercial discussion regarding rentals for the smart metering equipment.

### **Licence Condition 2 – 'Agree or Return'**

- 3.5. 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 within one or six months (depending upon whether they have an existing agreement with the MAP); or take all reasonable steps to return the relevant apparatus to the MAP by no later than the end of one further month.

### **Licence Condition 3 – 'No Backward Step'**

- 3.6. 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 will ensure that compliant smart metering equipment will not be replaced with non-compliant equipment (e.g. a dumb meter).
- 3.7. Licence Condition 3 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 equipment being replaced did).

### **Licence Condition 4 – Continuation of Remote Meter Reads**

- 3.8. This condition requires the gaining supplier to continue to provide a remote meter reading service where it gains a domestic consumer with a SMETS-compliant smart metering system. The gaining supplier is not required to receive the remote meter reads more frequently than is required to support the customer billing arrangements and can process the reads manually if it chooses to do so.

## Licence Conditions 1-3

- 3.9. The respondents' views and Government's conclusions on the effective dates of Licence Conditions 1, 2 and 3, and exemptions from these licence conditions are set out below.

### Effective dates

#### Respondents' views on effective dates of Licence Conditions 1 and 2

- 3.10. A majority of respondents supported the proposed effective date for Licence Conditions 1 and 2. It was argued that Licence Condition 1 could be delivered through existing industry processes and flows, enhanced by bilateral arrangements between MAPs, suppliers and agents. Respondents confirmed that industry discussions are taking place to determine how this can be achieved, including identification of mechanisms to provide information on the use of Communication Hubs that are installed during Foundation.
- 3.11. It was also noted that Licence Condition 2 places a requirement on suppliers to enter into negotiations and to reach agreement on contractual arrangements and, as such, there are no mandatory systems or processes to design, develop or to implement.
- 3.12. Some respondents argued that the effective date for Licence Conditions 1 and 2 should not be determined until there has been further assessment of the manner in which any industry changes and processes to support these obligations will operate, including the date by which any necessary Industry Code or data flow modifications could be implemented.

#### Respondents' views on effective date for Licence Condition 3

- 3.13. Some respondents suggested that the December 2013 date for the introduction of Licence Condition 3 was acceptable as it has no reliance on system or process development work and stated that early introduction of the full package of conditions was important to provide greater certainty for investment during Foundation.
- 3.14. However, a number of both larger and smaller suppliers suggested that in many cases they may have no means to replace a meter with another compliant meter, and may have no alternative other than to accept the terms offered by the MAP to retain the existing meter upon change of supplier. This could be the case either where the supplier does not yet have a national field force capability that is trained and qualified to install SMETS meters outside of the core areas where they have been conducting trials, or where they do not yet have a stock of compliant meters. Some suppliers also argued that forcing them to operate meter types which are not yet supported by their own systems and processes could lead to a poor consumer experience. These respondents suggested that Licence Condition 3 should be deferred on the basis that introducing this condition too early may unfairly commercially disadvantage them.

#### Government's conclusions on effective dates for Licence Conditions 1-3

- 3.15. The Government acknowledges the concern raised by a number of respondents that introducing Licence Condition 3 too early could disadvantage them and have a detrimental impact on the service they can offer to consumers. The Government has therefore decided that LC3 should take effect from April 2014. This will allow additional time for suppliers to put in place the necessary supply chain, commercial and operational arrangements to enable them to have the ability to exchange SMETS-compliant meters in

all geographical areas where they gain a consumer, should they be unable to agree terms with the relevant MAP.

- 3.16. The Government recognises that the benefits that are realised by the implementation of Licence Conditions 1 and 2 are enhanced by the implementation of Licence Condition 3. The Government has therefore decided that Licence Conditions 1 and 2 should also be implemented alongside Licence Condition 3 from April 2014.
- 3.17. The Government understands that industry discussions are already underway to define the processes that are required to support the arrangements between MAPs, suppliers and agents to comply with Licence Conditions 1 and 2. The Government welcomes this initiative, expects progress to be maintained and for industry practice to align with the intent of these two conditions before April 2014, if possible.
- 3.18. A small number of respondents were concerned that LC3 would place a mandate on consumers to accept a smart meter. Licence condition 3 does not change the principle that there is no legal obligation on consumers to have a smart meter. Furthermore, Licence condition 3 only applies in those circumstances where a consumer who already has a smart meter changes supplier.

### Prepayment exemption from Licence Condition 3

#### Respondents' views on prepayment exemption from Licence Condition 3

- 3.19. The May consultation document proposed that Licence Condition 3 could include an exemption such that it will not apply in circumstances where the replacement meter is a prepayment meter.
- 3.20. Almost all respondents were in favour of the proposed exemption. Such respondents considered it appropriate in view of the additional complexity of delivering smart prepayment services during Foundation.
- 3.21. Those respondents who did not favour the proposed exemption considered that an exception to the Licence Condition could provide a disincentive to moving from dumb to smart meters.

#### Government's conclusions on prepayment exemption from Licence Condition 3

- 3.22. The Government is encouraged by the work done to date to facilitate arrangements under which smart prepay can be tested, trialled and operated in Foundation. It wishes to see more progress in this area by all parties in advance of mass rollout so that the benefits of smart metering are available to more pre-payment customers as soon as practicable. However, at this stage in the development of the market, the Government has decided not to apply Licence Condition 3 where the replacement meter is a prepayment meter.

### Exemption for small suppliers from Licence Conditions 1-3

#### Respondents' views on exemption for small suppliers from Licence Conditions 1-3

- 3.23. Some respondents were in favour of an exemption for small suppliers from these licence conditions as these suppliers would face a disproportionate cost of complying by virtue of their size. Small suppliers suggested that there was a need for such an exemption in order for them to be able to apply pressure on third parties to offer reasonable terms. The view

was expressed that there was a strong case for an exemption from Licence Condition 3 as small suppliers could be disproportionately exposed to the risk of unreasonable terms and the costs of establishing practical and commercial arrangements to enable meter replacement.

- 3.24. Those respondents who did not favour any smaller party exemption from Licence Conditions 1-3 argued that: there was a low compliance cost (particularly for Licence Conditions 1 and 2); the exemption could distort the market; the overall benefits of SMETS meters apply to all suppliers irrespective of size; the exemption could erode consumer experience and benefit; and that it was not clear that small suppliers would be disproportionately affected by the obligations.

### **Government's conclusions on exemption for small suppliers from Licence Conditions 1-3**

- 3.25. Licence Conditions 1 and 2 seek to improve industry practice by enhancing information flows and encouraging meaningful dialogue between suppliers and MAPs. As such they are not expected to have a disproportionately high cost of compliance for small parties. The Government has therefore concluded that small suppliers should not be exempt from Licence Conditions 1 and 2 on the basis that they will not be adversely affected by these obligations.
- 3.26. The Government considers that small suppliers could be disproportionately exposed to the risk and the costs of putting in place commercial and practical arrangements to enable meter replacement under Licence Condition 3, as they may not have the same level of resources and negotiating power in this respect as larger suppliers. The Government also acknowledges the specific difficulties that small suppliers face in raising finance to invest in smart meters. It is therefore concluded that there should be an exemption for small suppliers from this obligation.
- 3.27. The threshold for this exemption from Licence Condition 3 will be 250,000 domestic customers and this is reflected in the legal text at Annex A.

### **Comments and Government conclusions on legal drafting for Licence Conditions 1-3**

- 3.28. A number of respondents commented on the draft legal text for Licence Conditions 1-3. Some respondents suggested that Licence Condition 1 should be firmer and require in all cases that the supplier provides the information that is set out. The Government believes that the current emphasis should be on the provision of information where it is reasonable to do so and it would not be appropriate to place an absolute requirement on providers which could be deemed to be unreasonable.
- 3.29. Some respondents submitted additional information that they felt should be provided to the MAP. The Government accepts that this could be of value to the MAP and the licence conditions have therefore been updated to include a requirement to provide the MPRN (Gas Supply Licence) or MPAN (Electricity Supply Licence) for the devices at the property.
- 3.30. One respondent highlighted the potential role of MAMs and MOPs<sup>1</sup> in the process set out in Licence Conditions 1 and 2 and the need to recognise this in the legal drafting. The licence conditions have therefore been changed to reflect these roles.

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<sup>1</sup> Meter Asset Managers (MAM) for gas meters and Meter Operators (MOP) for electricity meters

- 3.31. A number of concerns were raised over the requirement in the draft licence conditions to return the meter in the same condition as when it was removed. In particular, it was felt that this wording could create significant problems for suppliers if they were expected to prove the condition of the equipment at this point. The Government has considered the feedback and the implications of the proposals and agrees that this should be amended. Current industry best practice sets out expectations for suppliers on returning/ making available meters and the drafting in the licence conditions has been changed to reflect this approach.
- 3.32. Comments were also received in relation to the definitions included in the licence conditions and specifically the need to recognise Smart Metering Systems. The Government confirms the intent that the Licence Conditions only apply to SMETS-compliant metering equipment<sup>2</sup>.
- 3.33. Additional detailed comments were received in relation to a number of areas. These are set out in the licence conditions included in Annex A of this document.

### **Comments and Government conclusions on legal drafting for amendment to the Operational Requirements Licence Conditions (OLC)**

- 3.34. A number of respondents commented on the proposed amendments to the text of the Operational Requirements Licence Conditions (OLC). Responses were polarised as to whether there was a need for such an exemption, with some respondents suggesting the exemption should be removed, as it could encourage suppliers to replace meters.
- 3.35. The Government recognises that 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 obligation applies regardless of choices made by suppliers in relation to their roll-out. The Government remains of the opinion that preventing a 'backward step' (e.g. from smart to dumb meters) is justified in this context but that an exception from the OLC requirements to operate a smart service should be included in this specific circumstance.

### **Licence Condition 4**

- 3.36. The Government consulted on Licence Condition 4 as a mechanism to maintain the customer experience for those consumers who already benefit from smart services prior to a change of supplier. When a customer continues to benefit from a remote meter read on change of supplier, it should be possible to provide more accurate bills than would be achievable with that meter operated in dumb mode. Suppliers should also be able to secure savings by avoiding the need for manual meter reads for those consumers.
- 3.37. Respondents' views on Licence Condition 4 and the Government's conclusions are set out below.

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<sup>2</sup> The Secretary of State designated the initial Smart Metering Equipment Technical Specifications, and the in-home display technical specification, which forms a part of that document, on 18 December 2012.



### Respondent views on Licence Condition 4

- 3.38. Those respondents in favour of Licence Condition 4 suggested that it would lead to a better consumer experience by: limiting service regression; protecting the benefits arising from early SMETS meter installations; reducing asset stranding and risk premiums during Foundation; and accelerating market development and preparations for mass roll-out. It was also argued by some parties that compliance with Licence Condition 4 would be achievable at relatively low cost through evolving SMSO services and existing industry processes, and that service cost and complexity was not a barrier. It was suggested that on-going SMSO market development will mean that interoperability should be achievable for a significant proportion of gained meters across the larger energy suppliers in 2014, particularly as a number of suppliers are using common platforms.
- 3.39. Arguments presented against Licence Condition 4 included that its benefits were not clear, and were outweighed by the cost of implementation. It was suggested that there would be significant regulatory, technical and commercial complexity to implement Licence Condition 4 and a potentially high cost of compliance. It was also suggested that Licence Condition 4 could lead to unintended competition impacts, potentially providing too much commercial power for installing suppliers and SMSOs and that this could lead to gaining suppliers being exposed to disproportionately high costs. It was also suggested that suppliers may potentially seek to avoid consumers with SMETS meters in order to avoid these costs, with a detrimental impact on supply competition.
- 3.40. Some respondents suggested that investment to maintain benefits would be stranded once the DCC is in place and would represent a significant diversion of resources away from preparations for mass roll-out. It was argued that Licence Condition 4 would be disproportionate given the limited number of smart change of supplier transactions expected during Foundation and that the existing Effective Switching licence conditions (augmented by Licence Conditions 1-3) will offer sufficient consumer protection. It was suggested that the consumer experience could suffer as some suppliers may not be able to support other suppliers' meters to an acceptable service level (e.g. via contact centres). It was also argued that Licence Condition 4 could have an interaction with other regulatory requirements, such as those relating to privacy, security and energy efficiency and that this could increase the impact on suppliers.
- 3.41. A majority of respondents indicated that there may be a case for exempting smaller suppliers from Licence Condition 4 to the extent that they would face a disproportionate impact by virtue of their size. For example, it was suggested that a lack of scale would mean that the cost per customer of investment in systems to enable compliance with this condition would be very high. Respondents that opposed any exemption for smaller suppliers argued that this could distort the market and would be detrimental to consumers who should expect to retain the basic benefits from their smart meters, irrespective of their choice of supplier.

### Government's conclusions on Licence Condition 4

- 3.42. The Government is encouraged by the developments in the SMSO market and the services that have already been established by some energy suppliers to increase the level of interoperability for meters that are installed in the Foundation Stage. The Government recognises that gaining suppliers may have limited opportunities to influence the price of the remote meter reading service that is provided by the losing supplier or SMSO, which may lead to uneconomic outcomes.
- 3.43. Having carefully considered responses to the consultation, the Government has decided against introducing Licence Condition 4. The Government continues to encourage

suppliers to put in place arrangements so that customers with smart meters who switch to them can continue to receive smart benefits (such as accurate billing) during the Foundation Stage. However, the Government is not persuaded of the benefit of additional regulation in this area at this stage.

# 4. Enrolment and Adoption

## Introduction

- 4.1. Two types of incremental costs associated with enrolling SMETS1 metering equipment into the DCC were distinguished in the May document. These are the one-off costs of building systems to enrol meters and the on-going operational costs associated with sending and receiving messages.
- 4.2. The Government determined that the common benefits associated with enrolling SMETS1 compliant metering equipment justifies spreading the one-off development costs across all users. The May consultation response contained a detailed analysis of on-going costs and the Government consulted on the three options for allocating these:
  - **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 gaining 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).
- 4.3. The Government considered that 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.
- 4.4. This cap would reflect the fact that an important benefit of the early installation of meters during the Foundation Stage is the avoidance of dumb for dumb meter replacements.
- 4.5. The May 2013 consultation invited respondents to provide views on the advantages and disadvantages of the three charging options and on the proposed cap.



## Summary of Responses

- 4.6. The respondents views and Government's conclusions on the charging options is set out below.

### Respondent views on charging options

- 4.7. Of those respondents who expressed a clear view, charging Options 1 and 2 were the preferred choice. No respondents supported Option 3, although one respondent indicated that it could be its preferred option pending further analysis. Several of the larger energy suppliers provided reasons for rejecting Option 3. These included concerns regarding the complexity of administering the scheme, unpredictability of costs and the potential for 'gaining' suppliers to inherit unfavourable Foundation communication contracts.
- 4.8. One of the larger suppliers and a small number of other respondents, including an SMSO, favoured Option 1. The main arguments in favour of Option 1 are that it would be the simplest scheme to administer, that it encourages activity in the Foundation Stage and it most fairly reflects the benefits gained by all suppliers from early installation of SMETS-compliant meters.
- 4.9. The smaller energy suppliers that responded also supported Option 1 and those who provided an explanation supported it on the basis of simplicity.
- 4.10. The majority of the larger energy suppliers opposed Option 1. They felt that this option is neither cost reflective nor equitable, as all DCC users would finance the benefits gained by some suppliers during Foundation. It was argued that those suppliers who chose to roll-out meters early did so in the expectation of gaining significant benefit to their individual business and therefore should have to meet the costs and accept any risk to their investment.
- 4.11. These same respondents also felt that, under Option 1, only those companies with significant activity in the Foundation Stage would have visibility of the level of communication costs. Thus other suppliers would be disadvantaged through a lack of protection against unpredictable costs and face difficulties in budgeting for future expenditure.
- 4.12. Views in favour of Option 2 largely concentrated on its suitability for allocating costs in a fair and equitable manner. Respondents felt that Option 2 would allow those suppliers who enter into Foundation communication contracts to bear those costs and ensure that they are not passed on to other parties. They also felt it offered the most clarity of the costs incurred when gaining a supply point.
- 4.13. With regard to the relative practicality of the three options, the consensus view was that Options 1 and 2 were significantly easier to implement than Option 3. Several respondents felt Option 1, without the proposed cap, was the easiest to implement because the application of a single charge removed the requirement for reconciliations and reduced the risk of disputes. Option 2 was considered to be straightforward to deliver, but would require some additional, potentially costly features (e.g. asset tracking).

### Respondent views on proposed cap

- 4.14. Opinion was evenly divided regarding whether the proposed cap should be supported. Of those who favoured this approach, several suggested different cap limits, whilst others requested further assessment of the impact of the cap and the manner in which it would be

applied, particularly concerning the manner in which the cap levels are calculated and compliance is monitored.

- 4.15. Those respondents who did not support a cap were of the opinion that it would impose an unnecessary limitation on Foundation activity and was overly complex. It was felt that a cap could encourage continued installation of 'dumb' meters even though fully compliant smart meter installations were possible. One respondent felt that any early movers would be penalised and extra costs would be incurred in developing the cap.
- 4.16. Approximately half of the respondents who commented expressed some support for a cap if Option 1 was implemented. They believed that it represented a sensible approach and enabled much of the risk of rolling out SMETS 1 meters to be removed from gaining suppliers, whilst at the same time preventing a potentially uneconomic proliferation of Foundation meters. Others felt that the cap should be set at level which would ensure it did not dissuade suppliers from installing SMETS1 meters or conversely avoid providing incentives for active participation in Foundation.

## Analysis & Government Conclusions

- 4.17. The Government has assessed the three charging options against the following criteria, on which views were sought in the May consultation document:
  - **cost reflectivity** - the fairness of the cost allocation and its non-discriminatory nature;
  - **impact** - the economic efficiency of the option and how it supports the development of the smart market; and
  - **practicality** - how readily the option might be implemented.

The results of the analysis are summarised below.

- 4.18. The Government considers that gaining suppliers should not bear the full costs of the Foundation communications contracts because they have no visibility or control over those costs. Charging options 1 and 2 are compatible with this principle because gaining suppliers pay a share of the Foundation communications contracts costs, rather than the full cost. Charging Option 3 is incompatible with this principle, because the gaining supplier pays the full cost of the Foundation communications contracts.
- 4.19. Although the Government believes that it is important to encourage enrolment of compliant meters into the DCC, it does not wish to do so in a manner that unduly promotes or inhibits activity in the Foundation market. Option 2 meets this objective as the installing supplier will continue to pay the Foundation communication contract cost and is not unduly incentivised by the opportunity to reduce those costs on enrolment.
- 4.20. There is an increased level of administrative and regulatory complexity associated with the monitoring and enforcement of a cap against Option 1.

## Government conclusion

- 4.21. While the Government recognises that there are common benefits associated with the enrolment of SMETS1 meters, only the installing supplier has clear visibility, and control of, the on-going communications costs. Other suppliers only accrue benefits if they gain such customers. It is also reasonable to assume that suppliers who have agreed communications contracts in the Foundation period are expecting to bear the costs of those, at least until a meter churns to another supplier. The Government has therefore concluded that charging Option 2 should be implemented.
- 4.22. Activity in the Foundation period involves a different set and distribution of costs to that in the enduring solution. This will be reflected in additions to regulatory documents covering the DCC charging methodologies, as required to implement Option 2.

## Enrolment Criteria

- 4.23. The Government has clarified the definition of the enrolment criterion that was included within the May 2013 consultation document as follows:
- “The minimum criterion for inclusion of metering equipment within the initial Foundation enrolment projects is that, **at the date of enrolment**, the meter **is** compliant with a version of SMETS.”*
- 4.24. This change allows suppliers to enrol meters that are made compliant after their installation date, but before their enrolment date.

# Annex A: Legal Text for Smart Change of Supplier Licence Conditions

## Electricity Supply Licence

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

#### Application

- 1 This Condition applies in respect of any Domestic Premises at which there is, at the date of a Supplier Transfer in respect of that Domestic Premises, a Smart Metering System installed (relevant premises).

#### Part A: Obligations on Old Supplier

#### Notification of Meter Asset Provider

- 2 This paragraph applies where:
- (a) the licensee is the Old Supplier in relation to a relevant premises; and
  - (b) the New Supplier in relation to that relevant premises is not the Meter Asset Provider for all of the Relevant Apparatus at the relevant premises.
- 3 Where paragraph 2 applies the licensee must take all reasonable steps to send within 15 working days of the Supplier Transfer, or such other timescale agreed with the New Supplier or a Meter Asset Provider (as the case may be):
- (a) a Notice to the New Supplier giving:
    - (i) the name and contact details of each Relevant Meter Asset Provider; and
    - (ii) details of the Relevant Apparatus provided by each Relevant Meter Asset Provider,(a **MAP Notice**);
  - (b) a Notice to each Relevant Meter Asset Provider (other than the licensee) giving, in respect of the relevant premises:
    - (i) the date of the most recent Supplier Transfer;
    - (ii) the name of the New Supplier;

- (iii) the Supply Number and the Meter Point Administration Number (MPAN) of each Electricity Meter; and
- (iv) the serial number of, or any other information which identifies, the Relevant Apparatus provided by that Relevant Meter Asset Provider.

## **Part B: Obligations 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 it:

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

5 Where:

- (a) paragraph 4 applies; and
- (b) the licensee does not have an existing agreement with the Relevant Meter Asset Provider for the provision of apparatus of the type identified in the MAP Notice, or by the Relevant Meter Asset Provider, as Relevant Apparatus,

the licensee must take all reasonable steps to ensure that by no later than 6 months from the date of the MAP Notice or from first being contacted by the Relevant Meter Asset Provider about the Relevant Apparatus (whichever is the earlier):

- (c) it has entered into an agreement with the Relevant Meter Asset Provider for the provision of apparatus of the type identified in the MAP Notice, or by the Relevant Meter Asset Provider, as Relevant Apparatus; 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 identified in the MAP Notice, or by the Relevant Meter Asset Provider, as Relevant Apparatus, 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.

#### Return of Apparatus

- 7 Where pursuant to either paragraph 5 or 6 (as applicable) the licensee is not able to agree terms with the Relevant Meter Asset Provider within the Specified Period it must:
- (a) return the Relevant Apparatus to the Relevant Meter Asset Provider; and
  - (b) take all reasonable steps to do so by no later than 1 month after the expiry of the Specified Period .
- 8 Where paragraph 7 applies, the licensee must take all reasonable steps to ensure that any apparatus returned in accordance with that paragraph is, at the time of its return, in the same condition as it was when it was last used as Relevant Apparatus.

#### Replacement of SMS Apparatus

- 9 This paragraph applies where the licensee:
- (a) supplies electricity to at least 250,000 Domestic Customers;
  - (b) is the New Supplier in relation to a relevant premises;
  - (c) returns, or is taking steps to return, pursuant to the requirements of paragraph 7, any apparatus to a Meter Asset Provider; and
  - (d) installs, or arranges the installation of, Replacement Apparatus.
- 10 Subject to paragraph 11, where paragraph 9 applies the licensee must take all reasonable steps to ensure that the Replacement Apparatus satisfies the requirements of the SME Technical Specification applicable at the date of its installation.
- 11 The requirement in paragraph 10 does not apply in respect of Replacement Apparatus which:
- (a) is an Electricity Meter; and
  - (b) is able to operate only as a Prepayment Meter.

12 Paragraphs 9, 10 and 11 of this Condition cease 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

13 In this Condition:

<b>Meter Asset Provider</b>	means any person who owns, and leases to other persons, apparatus forming part of a Smart Metering System.
<b>New Supplier</b>	means, in relation to a relevant premises, the Electricity Supplier that became the Relevant Electricity Supplier for the relevant premises by virtue of the most recent Supplier Transfer.
<b>Old Supplier</b>	means, in relation to a relevant premises, the Electricity Supplier that was, immediately prior to the most recent Supplier Transfer, the Relevant Electricity Supplier for the relevant premises.
<b>Relevant Apparatus</b>	means any apparatus forming part of the Smart Metering System at the relevant premises.
<b>Relevant Meter Asset Provider</b>	means the Meter Asset Provider of Relevant Apparatus.
<b>Replacement Apparatus</b>	means apparatus which is to replace any apparatus returned, or to be returned, pursuant to the requirements of paragraph 7, to a Meter Asset Provider.
<b>Specified Period</b>	means the period specified in paragraph 5(b) or 6(b) (whichever is applicable).

<b>Supplier Transfer</b>	has the meaning given to it in standard condition 14A of this licence.
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## Gas Supply Licence

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

#### Application

- 1 This Condition applies in respect of any Domestic Premises at which there is, at the date of a Supplier Transfer in respect of that Domestic Premises, a Smart Metering System installed (relevant premises).

#### Part A: Obligations on Old Supplier

##### Notification of Meter Asset Provider

- 2 This paragraph applies where:
  - (a) the licensee is the Old Supplier in relation to a relevant premises; and
  - (b) the New Supplier in relation to that relevant premises is not the Meter Asset Provider for all of the Relevant Apparatus at the relevant premises.
- 3 Where paragraph 2 applies the licensee must take all reasonable steps to send within 15 working days of the Supplier Transfer, or such other timescale agreed with the New Supplier or a Meter Asset Provider (as the case may be):
  - (a) a Notice to the New Supplier giving:
    - (i) the name and contact details of each Relevant Meter Asset Provider; and
    - (ii) details of the Relevant Apparatus provided by each Relevant Meter Asset Provider, (a MAP Notice);
  - (b) a Notice to each Relevant Meter Asset Provider (other than the licensee) giving, in respect of the relevant premises:
    - (i) the date of the most recent Supplier Transfer;
    - (ii) the name of the New Supplier;
    - (iii) the Meter Point Reference Number (MPRN) of each Gas Meter; and
    - (iv) the serial number of, or any other information which identifies, the Relevant Apparatus provided by that Relevant Meter Asset Provider.

## **Part B: Obligations 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 it:

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

5 Where:

- (a) paragraph 4 applies; and
- (b) the licensee does not have an existing agreement with the Relevant Meter Asset Provider for the provision of apparatus of the type identified in the MAP Notice, or by the Relevant Meter Asset Provider, as Relevant Apparatus,

the licensee must take all reasonable steps to ensure that by no later than 6 months from the date of the MAP Notice or being contacted by the Relevant Meter Asset Provider (whichever is the earlier):

- (c) it has entered into an agreement with the Relevant Meter Asset Provider for the provision of apparatus of the type identified in the MAP Notice, or by the Relevant Meter Asset Provider, as Relevant Apparatus; 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 identified in the MAP Notice, or by the Relevant Meter Asset Provider, as Relevant Apparatus, 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.

### Return of Apparatus

- 7 Where pursuant to either paragraph 5 or 6 (as applicable) the licensee is not able to agree terms with the Relevant Meter Asset Provider within the Specified Period it must:
- (a) make the Relevant Apparatus available for collection by the Relevant Meter Asset Provider; and
  - (b) take all reasonable steps to do so by no later than 1 month after the expiry of the Specified Period.
- 8 Where paragraph 7 applies, the licensee must take all reasonable steps to ensure that any apparatus made available for collection in accordance with that paragraph is, at the time of its collection, in the same condition as it was when it was last used as Relevant Apparatus.

### Replacement of SMS Apparatus

- 9 This paragraph applies where the licensee:
- (a) supplies gas to at least 250,000 Domestic Customers;
  - (b) is the New Supplier in relation to a relevant premises;
  - (c) makes, pursuant to the requirements of paragraph 7, apparatus available for collection by a Meter Asset Provider; and
  - (d) installs, or arranges the installation of, Replacement Apparatus.
- 10 Subject to paragraph 11, where paragraph 9 applies the licensee must take all reasonable steps to ensure that the Replacement Apparatus satisfies the requirements of the SME Technical Specification applicable at the date of its installation.
- 11 The requirement in paragraph 10 does not apply in respect of Replacement Apparatus which:
- (a) is a Gas Meter; and
  - (b) is able to operate only as a Prepayment Meter.
- 12 Paragraphs 9, 10 and 11 of this Condition cease 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

13 In this Condition:

<b>Meter Asset Provider</b>	means any person who owns, and leases to other persons, apparatus forming part of a Smart Metering System.
<b>New Supplier</b>	means, in relation to a relevant premises, the Gas Supplier that became the Relevant Gas Supplier for the relevant premises by virtue of the most recent Supplier Transfer.
<b>Old Supplier</b>	means, in relation to a relevant premises, the Gas Supplier that was, immediately prior to the most recent Supplier Transfer, the Relevant Gas Supplier for the relevant premises.
<b>Relevant Apparatus</b>	means any apparatus forming part of the Smart Metering System at the relevant premises.
<b>Relevant Meter Asset Provider</b>	means the Meter Asset Provider of Relevant Apparatus.
<b>Replacement Apparatus</b>	means apparatus which is to replace any apparatus made available, pursuant to the requirements of paragraph 7, for collection by a Meter Asset Provider.
<b>Specified Period</b>	means the period specified in paragraph 5(b) or 6(b) (whichever is applicable).
<b>Supplier Transfer</b>	has the meaning given to it in standard condition 14A of this licence.



# 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

## **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.

## **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 (or the Foundation Stage)**

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

## **Foundation Meters**

Smart Meters installed during the Foundation 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.

## **Mass Roll-out**

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.

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