

EXPLANATORY MEMORANDUM TO
THE MODIFICATIONS TO THE STANDARD CONDITIONS OF ELECTRICITY
AND GAS SUPPLY LICENCES.

(SMART METERS No. 3 of 2017)

1. Introduction

- 1.1 This explanatory memorandum has been prepared by the Department for Business, Energy and Industrial Strategy and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

- 2.1 These modifications refine the regulatory framework to support the roll-out of smart meters in Great Britain, in line with the Government's policy aim for every home and smaller business in Great Britain to be equipped with a smart meter by the end of 2020. They relate to specific conditions in the standard conditions of electricity and gas supply (the "Supply Licence Conditions").

3. Matters of special interest to Parliament

Matters of special interest to the Joint Committee on Statutory Instruments

- 3.1 Not applicable: these are energy supply licence modifications and not a Statutory Instrument.

Other matters of interest to the House of Commons

- 3.2 Not applicable: these are energy supply licence modifications and not a Statutory Instrument.

4. Legislative Context

- 4.1 The instrument modifies the Supply Licence Conditions. Since 2013, BEIS (formerly the Department of Energy and Climate Change) has made a number of modifications to develop the regulatory framework for the roll-out and operation of smart meters. BEIS expects to make further modifications to the regulatory framework in due course.

5. Extent and Territorial Application

- 5.1 This instrument applies to Great Britain.

6. European Convention on Human Rights

- 6.1 As the instrument is subject to a negative resolution procedure and is not a statutory instrument so does not amend primary legislation, no statement is required.

7. Policy background

What is being done and why

- 7.1 The Government has introduced obligations in the licences held by energy suppliers to roll out smart gas and electricity meters to every home and smaller business in Great Britain by the end of 2020. The roll-out of smart meters will give people better information about, and control over, their energy consumption and deliver other benefits to consumers. This will play an important role in Great Britain's transition to a low-carbon economy, and help us meet some of the long-term challenges we face in ensuring an affordable, secure and sustainable energy supply

Modifications proposed to standard supply licence conditions

- 7.2 The Supply Licence Conditions provide the high level obligations under which energy suppliers operate. This instrument introduces the following change:

Early Rollout Obligation: removal from the Supply Licence Conditions of the 'Early Rollout Obligation' (ERO) so that larger energy suppliers are no longer required to take all reasonable steps to install 1,500 SMETS2 meters or 0.025% of their relevant meter points (whichever is the lower) by 17 February 2017 or a later date as may be specified in a direction issued by the Secretary of State. The ERO is to be removed on the basis that it has largely fulfilled its purpose of being a catalyst for SMETS2 procurement activity (i.e. the enduring smart metering solution).

Consolidation

- 7.3 The Government does not intend to consolidate the Supply Licence Conditions. A consolidated version of the Supply Licence Conditions will be available on Ofgem's website¹ once these modifications come into legal effect.

8. Consultation outcome

- 8.1 Government has consulted on the legal text of these changes to the Supply Licence Conditions in an open letter between 16 and 23 November 2016 ("BEIS open letter consultation on removing the Early Rollout Obligation"). During this consultation period, BEIS held a meeting with senior industry representatives in which the intended modifications set out in the consultation were explained in detail and an opportunity provided for stakeholders to seek clarification and give early feedback.
- 8.2 A total of 17 responses to the November 2016 open letter consultation were received. 12 respondents (including energy suppliers, Energy UK, Ofgem, a Meter Asset Provider) agreed with the proposal to remove the ERO on the basis it had largely fulfilled its purpose. Energy suppliers also made representations on the risks the compliance date now presented to them and consumers in that it forced suppliers to install metering solutions and supporting processes before they currently expected them to be sufficiently tested and robust.
- 8.3 Arguments from the 5 respondents opposed to removing the ERO focused on a concern that it would delay suppliers SMETS2 deployments risking increased numbers of SMETS1 meters over current expectations (SMETS1 are the first version of smart meters available to be deployed by suppliers against their rollout targets). Stakeholders including Citizens Advice and network operators argue this would offer lower overall benefits for customers and network operators respectively. Network

¹ <https://www.ofgem.gov.uk/licences-codes-and-standards>

operators also suggested that any SMETS2 delays could risk them not being able to test their systems with DCC as early as they would like. Based on supplier evidence, Government's assessment is that the removal of the ERO will not change supplier SMETS2 scaling strategies and so the volume of SMETS1 meters.

- 8.4 One respondent who disagreed with the proposal to remove the ERO supported an alternative of moving the ERO to a future compliance date. This would however leave in place a regulation which is considered superfluous and good regulatory practice suggests Government should now remove it.

9. Guidance

- 9.1 The Government does not intend to publish any guidance related to these modifications.

10. Impact

- 10.1 An updated Cost Benefit Analysis for smart metering was published in November 2016. It estimated the costs and benefits associated with the GB roll-out of smart meters and identified a substantial net benefit of £5.7 billion for the period to 2030 from the programme², yielding £1.5 of savings for every £1 spent. The estimated overall direct impact on businesses of the roll-out of smart meters is an equivalent annual net cost of £36 million. Removing the ERO is deregulatory in nature, providing suppliers more flexibility to plan their meter deployments in way which is cost effective for them and consumers.
- 10.2 The impact on the public sector is nil.
- 10.3 The November 2016 assessment of the effect that the smart meter roll-out will have on the costs of business and the voluntary sector is available at:
<https://www.gov.uk/government/publications/smart-meter-roll-out-gb-cost-benefit-analysis>

11. Regulating small business

- 11.1 The amendments proposed are only relevant to larger energy suppliers³. The legislation does not apply to activities that are undertaken by small businesses.

12. Monitoring & review

- 12.1 The Government's Monitoring and Evaluation Strategy will ensure that the smart metering rollout is subject to a comprehensive and integrated review and evaluation process. Ofgem will be responsible for monitoring and taking licence enforcement action where necessary in line with its guidelines.

13. Contact

- 13.1 Please contact Nicholas Taylor at the Department of Business Energy and Industrial Strategy (tel: 0300 068 5154 or email: Nicholas.taylor@beis.gov.uk) concerning any queries regarding the instrument.

² Central projections, 2011 prices, discounted to 2016

³ All suppliers with more than 250,000 domestic customers at 15 February 2015 would qualify for the ERO.