



Gas and electricity supply licence holders, Ofgem and other interested parties

12 December 2016

Dear Colleagues,

BEIS open letter consultation response on the Early Rollout Obligation

We proposed in an open letter consultation of 16 November 2016 to remove the Early Rollout Obligation (ERO)¹. This supplemented by a discussion at SMDG. The proposal was made on the basis of evidence from qualifying energy suppliers and others that the ERO had served its primary purpose in driving significant progress on SMETS2 procurements and system testing. We had also been advised that the ERO compliance point in early 2017 risked poor operational decisions whereby meters would be installed without having undergone full testing of the associated processes and customer journeys, with potential for negative customer impacts.

Summary of consultation responses

We had seventeen responses to the consultation letter – a list of respondents is at **Annex 1**.

Twelve respondents were supportive of the proposal to remove the ERO. Supporting comments from respondents (e.g. suppliers, Ofgem, a Meter Asset Provider) unequivocally in support of the proposal to remove the ERO reinforced the consultation position that the intent of the policy had been met. They stated that suppliers had progressed SMETS2 procurement activity and that maintaining the ERO compliance point risked creating unintended consequences which may increase costs for suppliers and expose customers to poor levels of service.

The support of one of these respondents was conditional upon Government committing to not moving future compliance points. Another respondent, while supportive, suggested introducing a new later Programme milestone to help provide confidence in DCC stability and scale.

Five respondents (e.g. Citizens Advice, Network operators) opposed the removal of the ERO, with one of these suggesting an alternative approach whereby the ERO is retained with a later compliance date. The main concern raised was that the proposal risked suppliers delaying any scaling of their SMETS2 programmes which could increase the overall volume of SMETS1 installations over current expectations, leading to loss of benefits for consumers and network operators.

¹ The ERO requires qualifying large energy suppliers with more than 250,000 domestic customers as at 15 February 2015 to install and enrol with the Data and Communications Company (DCC) SMETS2 smart metering systems to (the lower of) 1500 or 0.025% of their relevant customer base by six months after the date at which the DCC goes live. The date specified in gas and electricity Supply Licence Conditions for compliance is 17th February 2017, though these licence conditions enable the Secretary of State to set a later deadline by issuing a direction.



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Network operators also had concerns that removing their compliance point risked delays to the testing of their systems with DCC. One respondent thought removal of the ERO could impact consumer protections such as work Ofgem is undertaking with energy suppliers to introduce as soon as practicable a voluntary six month back-billing limit for consumers with a smart meter.

There were no specific comments on the proposed amendments to the supply licence conditions with respondents either agreeing or disagreeing in line with their response to the first question on policy.

Consideration and Government response

The Government's approach is to provide industry with the flexibility to plan and manage the rollout efficiently in order to serve their customers effectively in a competitive market. The Government's aim is to put industry in the best position to make investment and deployment decisions on the enduring solution and to secure a path towards completion of the rollout by the end of 2020 in a way which maximises customer benefits. The large proportion of consultation respondents suggested that the ERO had met its objectives and, even though bound by all reasonable steps, that the ERO now risked forcing energy suppliers into investment and deployment decisions which could cause negative customer outcomes.

The Government wishes to see the installation, enrolment and operation of SMETS2 meters start as soon as possible. Removing the ERO does not change the onus on industry to test SMETS2 meters in a timely way. Nor does the Government consider that there is a risk of delay to DNOs being able to test the live operational performance of their systems from the removal of the ERO.

Larger suppliers have commercial and financial incentives which should drive them to install SMETS2 meters as soon as is practicable. Suppliers also have regulatory imperatives – larger suppliers have a mandate to become DCC users 6 months after DCC live and will be reliant on driving an early ramp-up in SMETS2 operations in order to meet 2020 targets. SMETS2 meters also unlock more of the customer base supporting more cost effective marketing approaches. SMETS2 meters include capability for load control and additional support for consumer access devices, thereby supporting service offers in line with suppliers' potential future business strategies. Moreover, suppliers suggest that removing the ERO will allow them to stabilise and scale their smart operations in a way which can ensure the rollout works for customers safely and effectively.

Our expectation is that there will be no material increase in SMETS1 meters over current expectations. Equally, removing the ERO should not impact a determination of DCC stability and so should not affect the point at which suppliers are able to implement the voluntary back billing changes.

One respondent opposing the ERO removal supported the alternate option of setting a later compliance point, which could be achieved by the Secretary of State issuing a direction specifying a new date. As set out in the consultation our view remains that setting a later compliance date is not appropriate in this instance as it would leave in place a regulation which is superfluous and good regulatory practice suggests we should remove it.

We note the call to commit to not moving future compliance points but we cannot fetter our discretion in this way. We also note the call for a new Programme milestone to give the market confidence in DCC stability and scale. BEIS will be monitoring SMETS2 delivery as part of routine quarterly and annual information gathering. Given larger suppliers progress with testing to date and DCC having progressed to offering a live service in November 2016, we do not believe a new milestone is evidenced as necessary at this time. We have not though ruled out additional milestones or obligations should it become necessary for ensuring energy suppliers take all reasonable steps to rollout smart meters by the end of 2020.



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In sum, our assessment is that removing the ERO is the best option for consumers, suppliers and the Programme collectively.

Next Steps

Government will proceed with removing the obligation. Using the procedures in Sections 88 and 89 of the Energy Act 2008, the relevant gas and electricity Supply Licence Condition modifications will be laid before Parliament. Subject to no objection being raised in Parliament during the 40 day Parliamentary laying period, and subject to subsequent signature by a Minister, the amendments will come into legal force. The Licence Conditions are expected to come into legal force ahead of the current ERO compliance date. A tracked amended version of relevant extracts of the gas and electricity Supply Licence Conditions are attached.

Yours faithfully,

A handwritten signature in blue ink that reads "D. Walker".

Daron Walker
Senior Responsible Owner
Smart Metering Implementation Programme



Consultation respondents

BEAMA	Energy UK	Ovo
British Gas	EDMI	Ofgem
Citizens Advice	Electricity North West	Smart Meter Assets
EDF	First Utility	Scottish Power
EON	Northern Power grid	SP Energy Networks
	Npower	SSE