 <b>Regulatory Policy Committee</b>	<b>Opinion</b>	
<b>Impact Assessment (IA)</b>	Smart meter roll-out for the domestic and small and medium non-domestic sectors (GB)	
<b>Lead Department/Agency</b>	Department for Energy and Climate Change	
<b>Stage</b>	Final	
<b>IA number</b>	DECC0009	
<b>Origin</b>	Domestic	
<b>Expected date of implementation (and SNR number)</b>	SNR 4	
<b>Date submitted to RPC</b>	25/10/2013	
<b>RPC Opinion date and reference</b>	06/12/2013	RPC13-DECC-1944
<b>Overall Assessment</b>	<b>GREEN</b>	
<p><b>RPC comments</b></p> <p>The IA is fit for purpose. The updated EANCB represents the inclusion of updated evidence that reduces the overall impact on business. There are a number of changes to the analysis which have led to a significant reduction in the estimated EANCB, plus an amendment to account for a regulatory change, which has removed the requirement that meters should contain a keypad.</p>		
<p><b>Background (extracts from IA)</b></p> <p>What is the problem under consideration? Why is government intervention necessary?</p> <p><i>“Lack of accurate, timely information on energy use: a) may prevent customers from reducing consumption and therefore bills and CO<sub>2</sub> emissions and; b) increases suppliers' accounts management and switching costs. Better information on patterns of use across networks will aid in network planning and development, including future smart grids. In Great Britain, the provision of energy meters to consumers is the responsibility of energy retail suppliers, who are expected to roll out only very limited numbers of smart meters in the absence of Government intervention. To ensure commercial interoperability and full market coverage, intervention to establish minimum technical requirements and a completion date is needed.”</i></p> <p>What are the policy objectives and the intended effects?</p> <p><i>“To roll-out smart metering to all GB residential and small and medium sized non-domestic gas and electricity customers in a cost-effective way, which optimises the benefits to consumers, energy suppliers, network operators and other energy market participants and delivers environmental and other policy goals.”</i></p>		
<p><b>Comments on the robustness of the OITO assessment</b></p>		

The IA says that it is a regulatory proposal that would impose a net cost to business (an 'IN') with an Equivalent Annual Net Cost to Business of £36m. This is consistent with the current Better Regulation Framework Manual (paragraph 2.9.10) and, based on the information presented, provides a reasonable assessment of the likely impacts.

The updated analysis accounts for some regulatory changes as well as representing the inclusion of an improved evidence base. This update has reduced the overall equivalent annual net cost on business from £57 million to £36 million. This is derived from an estimated net present value to business from direct impacts of -£570 million.

There are a number of changes to the analysis which have led to a significant reduction in the estimated EANCB. In particular, industry has informed the Department that the majority of installations are likely to happen later than originally estimated, meaning the value of the associated impacts have been discounted more heavily. This has resulted in the total of present value costs being reduced by £780 million. There have also been further developments of the technical specifications incorporated into the modelling, such as the removal of the requirement for a keypad in every meter, which have collectively increased the overall net present value by around £100 million.

In addition, *“since price information derived from the procurement processes is firm and contractually committed to, any optimism bias factors which had previously been applied to the capital costs of the communications and data service providers, including the communications hub, have been removed”* (page 24 of the IA).

For greater clarity, the IA would benefit from a summary table which sets out each of the direct impacts on business, with an aggregated total in present value terms. This will make it quicker and easier to reconcile how the EANCB of £36 million was generated.

### **Comments on the robustness of the Small & Micro Business Assessment (SaMBA)**

The proposals regulate business and are intended to come into force after 1 April 2014 and therefore the SMBA is applicable.

The SMBA is sufficient. The Department has provided an extensive overview of the impact of the proposal on small and micro businesses. However, it is only a snapshot of the make-up of the energy sector to be affected by the proposal at the time of drafting the IA.

The Department explains that it has engaged in extensive consultation with a broad range of stakeholders and parties affected by the regulatory requirements. The Department goes on to explain that it has put in place a range of measures to minimise or mitigate potential burdens on smaller companies (page 124 of the IA:

- *“Greater flexibility in rolling out smart metering in the non-domestic sector, where smaller suppliers have a greater market share than in the domestic*

sector; for example, the use of [Data and Communications Company] DCC services is not mandatory in the non-domestic sector and there is also the possibility to install advanced meters (i.e. not compliant with the SMETS)[smart metering equipment technical standards], furthering choice and reducing the regulatory burden;

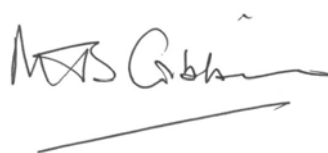
- *Reduced requirements with regard to the provision of monitoring and reporting information by non-Big 6 suppliers; only the Big 6 have to provide information on an annual basis to allow Ofgem to track the progress towards the completion of the roll-out; and*
- *A cost sharing arrangement for the Central Delivery Body that significantly reduces the cost burden on smaller suppliers; they will only have to make very limited contributions, while benefitting in full from the consumer awareness campaign to help minimise the roll-out costs for all supply companies.”*

The Department also adds that “*The [Smart Energy Code] SEC requirements have also been designed with a view to ensuring that the regulatory burden is proportionate to the benefits that can be realised and to minimise the burden on smaller companies. For example, the audits required to provide assurance that DCC users have met security requirements allow for a more streamlined assessment of smaller companies, thereby reducing compliance costs.*”

#### **Quality of the analysis and evidence presented in the IA**

The Department’s IA provides an overview of the current proposal in light of new evidence (page 18 of the IA), as well as updating some regulatory changes to the proposed policy. The Committee opined on the Department’s earlier IA (19/07/2012). This IA updates the estimates of costs and benefits following the analysis of new evidence in line with the Department’s agreed approach with the Better Regulation Executive (BRE) to managing the assessment of IAs that relate to the roll-out of the Smart Meter programme.

**Signed**



**Michael Gibbons, Chairman**