



Department for
Business, Energy
& Industrial Strategy

Smart Meter Policy Framework Post 2020:

Government Response to a Consultation on
Minimum Annual Targets and Reporting
Thresholds for Energy Suppliers



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Executive Summary

1. Smart meters are a vital upgrade to our national energy infrastructure and underpin the cost-effective delivery of the Government's net zero commitment. They are a critical tool in modernising the way we all use energy and support the transformation of the retail energy market, helping the system to work better for energy consumers. At the end of March 2021, there were 24.2 million smart and advanced meters in homes and small businesses across Great Britain, representing 44% smart coverage.¹
2. The Government is committed to ensuring that all households and small businesses can benefit from smart meters as soon as possible. To meet this ambition and drive completion of the rollout, the Government confirmed in June 2020 that a new four-year Framework would set energy suppliers annual, individual installation targets on a trajectory to 100% coverage, subject to an annual tolerance level. This Framework builds on the progress made under the current "All Reasonable Steps" obligation, which has been in place since 2012 and to which all energy suppliers remain subject until the start of the new Framework.² In November 2020, the Government consulted on the proposed tolerance levels for the first two years of the new target Framework, as well as proposals to lower the threshold at which energy suppliers report to the Smart Metering Implementation Programme.

Impact of COVID-19

3. During 2020, and since the November 2020 consultation, the impact of the coronavirus (COVID-19) pandemic (hereafter 'COVID-19') has continued to be challenging for the energy industry. BEIS has worked closely with industry throughout this period, supporting energy suppliers to continue smart meter installations where possible in line with the relevant Government guidance, whilst keeping the safety of their customers and staff as their central priority. Based on the latest insights provided to the Department by energy suppliers we understand that the majority of the installer workforce is now returned from furlough and actively installing.
4. The latest evidence shows that COVID-19 continued to have an impact on energy suppliers' rollouts in 2020 and early 2021, including further stay-at-home guidance issued in January 2021 that affected installation volumes. This extended period of uncertainty may have affected energy suppliers' preparations for the new obligation. In their responses to the November 2020 consultation, energy suppliers and a trade body representing them emphasised that more time under the existing "All Reasonable Steps" (ARS) obligation would better enable them to handle the disruption that has been caused by COVID-19. We acknowledge these views and have taken account of rollout progress since the publication of our November 2020 consultation. The Government has therefore concluded that it will extend the existing ARS obligation for a period of six months from 1 July 2021 to 31 December 2021. As specified in the definitions in standard condition 1³, this extension will be enacted by a letter of direction on behalf of

¹ [Smart metering statistics, Quarterly update March 2021](#)

² [Smart meters programme update](#), April 2012.

³ "ARS specified date" means 30 June 2021, or such later date as may be specified in a direction issued by the Secretary of State. Please see: [Delivering a Smart System: Response to a Consultation on a Smart Meter Policy Framework - Annex C](#), June 2020.

the Secretary of State to shortly follow this publication. As a result of this extension, the new four-year smart meter Framework will begin on 1 January 2022.

5. On this basis, this Government Response confirms the tolerance levels for Year 1 (2022) and Year 2 (2023) of the new Framework, which sets the methodology to calculate minimum installation requirements for these two years. The additional six month extension of the ARS obligation provides energy suppliers with further time to complete their planning and implementation ahead of the new Framework commencing on 1 January 2022. We expect all energy suppliers to make full use of this further period under the ARS obligation to finalise any operational arrangements and resolve any residual capacity constraints to enable them to meet their targets from the start of January 2022.
6. Owing to the huge efforts of energy suppliers and their installer workforces, and in expectation of the start of the new, annual target Framework, the latest installation data indicates that over 90,000 SMETS2 smart meters are being installed weekly. This is close to the pace expected under the new Framework. Therefore, this extension offers a final, focussed period of preparation across industry for the new Framework, whilst maintaining the momentum towards market-wide rollout.
7. Whilst disruptive, COVID-19 has also brought into sharper focus the benefits of moving to digital services across the economy, including in energy. It has brought home the consumer benefits of smart meters: from automatic meter readings meaning that meter readers do not need to visit homes and consumers receive accurate bills, through to prepayment customers with smart meters being able to track their spend and top-up credit without leaving their homes. The case for smart metering has never been more compelling than it is now.

Government decisions

8. We received 21 responses to the November 2020 consultation from a range of stakeholders, including energy suppliers, trade associations and consumer groups. We thank them all for their invaluable feedback and the supporting information they provided.
9. The decisions set out in this document reflect the responses received to the consultation, as well as the Government's commitment to ensuring that the right incentives are in place to reach market-wide rollout of smart meters as soon as possible. The key decisions are as follows:
 - i. The current All Reasonable Steps obligation will be extended through to 31 December 2021, with the new Framework commencing on the 1 January 2022.
 - ii. Establishing distinct tolerance levels for domestic and non-domestic energy suppliers.
 - iii. Setting final tolerance levels for Years 1 and 2 of the rollout now, to start from 1 January 2022 (included in Table 3 of this document, page 34).
 - iv. There will be a review point during Year 2 (2023) of the Framework, followed by a further consultation. This consultation will focus on setting the appropriate tolerance levels for Year 3 (2024) and Year 4 (2025) of the Framework.
 - v. If exceptional events were to occur that have a significant and negative market-wide impact on the rollout, such as was seen with the COVID-19 pandemic in 2020, BEIS will consider whether to carry out a review of the tolerance levels, which could include consulting on adjustments for Year 1 and/or Year 2.

- vi. BEIS will consult later in 2021 on a modification in the calculation of Year 2 targets (2023) to mitigate the impact of churn in smart meter customers.
- vii. To align with the Ofgem reporting thresholds, energy suppliers with 150,000 or more gas and/or electricity customer accounts will now be subject to reporting requirements under the new Framework.

Reaching market-wide coverage

10. The Government wants to ensure that all households and small businesses in Great Britain can benefit from smart metering. Reaching this goal will involve even greater collaboration between government, industry and Smart Energy GB and their partner organisations over the next phase of the rollout, across at least four complementary and interdependent areas of activity to drive the normalisation of smart metering (more detail and progress updates on each of these is included at [Annex B](#)):
- i. A continued focus, by the Government and industry, on **ensuring consumers are able to access the benefits and enjoy a positive experience** of smart metering, by delivering improved post-installation experience and operational fulfilment.
 - ii. **Smart Energy GB delivering in line with its updated objectives and governance arrangements** so that it meets the challenges posed in the remainder of the rollout, coordinating activity where relevant and effective.
 - iii. Industry developing and offering a greater array of **attractive and innovative new products and services** enabled by smart metering.
 - iv. The Government working with industry to build the conditions for, and deliver, a supportive and stronger **consumer policy environment** over time. Recent progress includes (but is not limited to): new, targeted funds to decarbonise the public sector and promote smart metering; new guidance for the construction sector relating to smart meters in new builds; a key role for smart metering in the Energy White Paper which laid out the UK's path to net zero; and agreement to include advice on smart metering as part of the Warm Home Discount scheme.
11. The Government recognises, however, that more may need to be done to engage consumers to reach the very highest levels of coverage by the end of the Framework. We therefore have a programme of work underway to assess, develop and research a number of more direct, consumer-oriented, policy measures in readiness for possible introduction later in the rollout.
12. For these measures to be deployed effectively, the right conditions will need to be in place. For energy suppliers, this means delivering high levels of operational fulfilment and a consistently good customer experience. We will work with energy suppliers and other stakeholders to define these preconditions more precisely and continue to support energy suppliers to improve operational fulfilment and customer experience.

Introduction

Policy context

13. Smart meters are replacing traditional gas and electricity meters as part of an essential infrastructure upgrade for Great Britain. Smart meters play a critical role in modernising the way we all use energy and are aiding the transformation of the retail market, so it works better for energy consumers. The half-hourly consumption and price data recorded by smart meters unlocks new approaches to managing demand. Innovative products such as smart ‘time of use’ tariffs reward consumers for using energy away from peak times and enable technologies such as electric vehicles and smart appliances to be cost-effectively integrated with renewable energy sources, as well as allowing energy suppliers to accurately bill their customers. This transformation into a smarter and more flexible energy system will play a vital role in decarbonising the energy sector, enabling us to cost-effectively deliver on our long-term commitment to net zero greenhouse gas emissions by 2050.⁴ We are determined that the UK will play a key role in providing the technologies, innovation, goods, and services that will be required to underpin this transition.
14. The Smart Metering Implementation Programme (“the Programme”) has continued to drive significant investment and employment opportunities across Great Britain. To deliver the rollout, a significant field force of installers within the energy sector has been established and maintained, alongside numerous other roles across supply chains and service providers. Therefore, the Programme has and will continue to provide a compelling contribution to the economy of Great Britain, supporting approximately 15,000 jobs across the nation.⁵ In September 2019, the Programme published its most recent cost-benefit analysis (CBA) which outlined that the Programme would continue to deliver significant benefits for households and small businesses in Great Britain, with a total Net Present Value (NPV) of £6 billion over the appraisal period. This shows that completing the Programme will maintain significant employment opportunities in the coming years. The Programme has now broken even, meaning every future installation will not only help individual consumers save money, but deliver a net benefit to Great Britain.
15. Without the flexibility enabled by smart meters, modelling for the Committee on Climate Change estimates the costs of delivering net zero by 2050 could be up to £16 billion higher each year.⁶ Given our net zero commitment and the significant benefits of the Programme to energy consumers and the energy system more broadly, it is a Government priority to deliver market-wide rollout as soon as practicable. We are making substantial progress. At the end of March 2021, there were 24.2 million smart and advanced meters in homes and small businesses across Great Britain, representing 44% smart coverage across the nation.⁷ By the end of the rollout, the Programme aims to

⁴ The UK’s 2050 net zero target – one of the most ambitious in the world – was recommended by the Committee on Climate Change, the UK’s independent climate advisory body. Net zero means any emissions would be balanced by schemes to offset an equivalent amount of greenhouse gases from the atmosphere, such as planting trees or using technology like carbon capture and storage. [Further information on net zero.](#)

⁵ Including energy suppliers’ installers and jobs in the supply chain and national communications infrastructure providers.

⁶ [Net Zero Technical Report - CCC, May 2019.](#)

⁷ [Smart metering statistics, Quarterly update March 2021](#)

have upgraded over 50 million gas and electricity meters in homes and small businesses.

16. Alongside domestic smart meters, three million non-domestic meters (across two million sites) are within the scope of the smart meter mandate.⁸ These cover a range of organisations and sectors, including pubs and restaurants (hospitality), shops (retail), schools and local authority buildings (public sector). Around 70%⁹ of mandate sites are estimated to be microbusinesses.¹⁰ At the end of Q1 2021, 45% of non-domestic meters were operating in smart mode, with 1.46 million smart meters and advanced meters across small non-domestic sites in Great Britain¹¹.
17. The COVID-19 pandemic has inevitably had an impact on installation rates since March 2020. During most of March 2020 through to May 2020, energy suppliers focussed on essential and emergency metering work and supported vulnerable consumers in the communities that they serve. In May 2020, the Government issued guidance on safe working during the pandemic which enabled energy suppliers to work in people's homes, whilst implementing additional safety measures to ensure the wellbeing of both customers and staff.¹² The Government also worked closely with energy suppliers, Smart Energy GB and the regulator (Ofgem) to share good practice on operational and consumer engagement activities in order to successfully remobilise energy suppliers' rollouts.
18. In February 2021, following the introduction of additional restrictions across Great Britain during autumn/winter 2020/21, the Government published a four-step roadmap to ease restrictions across England and provide a route back to a more normal way of life. Most recently, in April 2021, the Scottish Government issued its roadmap to recovery, which allowed energy suppliers to resume non-essential smart meter installations in Scotland from 26 April 2021. The Welsh Government also provided similar clarity on its roadmap to recovery. The lifting of restrictions, together with the progress made on remobilisation by the industry, means that most energy suppliers have now returned to pre-COVID-19 installation levels and in some cases, higher.
19. Progress on the rollout, and navigation of the challenges posed by COVID-19, is the result of close collaboration and investment by the Government, energy suppliers, their supply chains, and third-party service providers. It has also been achieved with the co-operation of energy suppliers' customers who have been willing to allow the installation of smart meters in their homes and businesses. As a result of this collaborative effort and hard work, the majority of technical constraints associated with installing smart meters have now been resolved. Further still, supported by Smart Energy GB, 97% of households across Great Britain are now aware of smart metering¹³, and recent evidence¹⁴ also suggests that COVID-19 has not had an enduring negative impact on

⁸Smaller sites in electricity profile classes 1-4 or with gas consumption below 732 MWh/year are covered by the smart meter mandate.

⁹ [Government response on proposals to improve non-domestic consumers' awareness of smart metering](#), May 2019.

¹⁰ Sites are classed as a microbusiness in licence conditions if they meet any one of the following criteria: a) they use no more than 100,000 kWh of electricity per year; b) they use no more than 293,000 kWh of gas per year; c) they have fewer than 10 employees (or their full time equivalent) and a turnover or annual balance sheet total not exceeding 2 million Euros.

¹¹ [Smart metering statistics, Quarterly update March 2021](#)

¹² [Working safely during coronavirus \(COVID-19\)](#), May 2020.

¹³ [Smart Energy Outlook, November 2020](#).

¹⁴ Smart Energy GB 6 monthly Outlook (domestic) and annual microbusiness tracker .

consumer sentiment towards smart metering. In fact, COVID-19 has brought into sharper focus the benefits of moving to digital services across the economy, including in energy. For example, consumers with smart meters being better able to monitor their energy use and those with smart meters in pre-payment mode being able to top-up remotely from the safety of home.

20. Millions of households and small businesses are benefitting from smart metering, allowing them to take control of their energy usage and adapt their behaviours to save money on their energy bills. Smart meters are bringing an end to manual meter reads and estimated billing for these consumers, helping to avoid possible debt and time spent interacting with their energy suppliers on billing issues. In the next phase of the Programme, and as we move past 50% of the meters in scope becoming smart, we want millions more energy consumers to benefit.
21. The Government's Energy White Paper, published in December 2020, reiterates our ambition to achieve market-wide rollout of smart meters as soon as practicable, enabling homes and small businesses to access digital energy services that put them in charge of their energy use.¹⁵ The policy objectives of the Framework focus on the overall ambition of the Programme and the intended effects of the intervention to:
- i. Encourage consumers to benefit from the rollout of smart meters, including by supporting them to use the data from smart meters.
 - ii. Deliver a market-wide rollout of smart meters as soon as possible, that ensures value for money and maintains installation quality so that consumers can derive maximum benefit and have a good experience.
 - iii. Normalise smart meters so that they are the default meter used in Great Britain.
 - iv. Give further certainty to the whole sector to continue to invest and plan, beyond the ARS obligation.

Consultation events

22. In June 2020, the Government confirmed a new four-year smart metering policy Framework to start on 1 July 2021. Under the new Framework, each energy supplier will be set individual targets on a trajectory to 100% coverage, subject to an annual tolerance level that applies across industry as a percentage of their customer base. This creates a minimum number of installations that each energy supplier must meet in each year under the new Framework. In November 2020, we consulted on the tolerance levels for the first two years of the Framework. We also consulted on reporting thresholds for large energy suppliers.
23. Following the publication of the consultation, BEIS conducted five stakeholder engagement events during December 2020. Additional engagement was carried out by correspondence, addressing specific questions and/or points of clarification on the consultation document. Stakeholders involved comprised energy suppliers, non-domestic energy suppliers, independent/small suppliers, meter operators (MOPs) and meter asset providers (MAPs).
24. The stakeholder engagement events were organised to ensure attendees had the opportunity to understand the consultation proposals and their implications, and address

¹⁵ [Energy white paper: Powering our net zero future](#), December 2020.

points for clarification whilst also allowing the Government to receive feedback from industry on the consultation proposals. The feedback provided at these meetings was not taken as a formal response to the consultation. Instead, attendees were encouraged to submit full formal responses to the consultation. That said, feedback and the main issues raised during these meetings has been considered and addressed as part of the overall response outlined in this document. A summary of post-publication engagement is given in Table 1 below.

Table 1: Post-publication engagement

Date	Organisation Type
10/12/2020	Smart Metering Delivery Group (SMDG)
11/12/2020	Independent/Small Energy Suppliers
14/12/2020	Non-domestic Energy Suppliers
15/12/2020	Meter Operators (MOPs)
16/12/2020	Meter Asset Providers (MAPs)

Consultation responses

25. The original closing date for the consultation was 11 January 2021. Following feedback from stakeholders, this date was extended to 15 January 2021 to allow them more time to respond. A total of 21 responses were received from a wide range of stakeholders. These included: energy suppliers, non-domestic energy suppliers, trade bodies, consumer groups, meter operators (MOPs), meter asset providers (MAPs) and others. A list of individual respondents can be found in Annex A of this document. Table 2 below provides a summary of respondents by organisation type.

Table 2: Summary of consultation Responses (by organisation type)

Organisation Type	Number of Respondents	Percentage of Total (rounded up)
Energy supplier (domestic only and mixed portfolio)	10	48%
Non-domestic only energy supplier	3	14%
Trade body	3	14%
Consumer group	2	10%
MOP/MAP	2	10%
Other	1	5%
TOTAL	21	100%

26. This document provides high-level summaries of the responses to the questions of the consultation received from respondents, and the Government’s response to each of these. Questions are divided into three sections. Section 1 covers Questions 1-4 under ‘Assumptions and Projections’. Section 2 covers Questions 5-7 under ‘Tolerance Levels and Targets’. Section 3 covers Questions 8 and 9 under ‘Reporting Thresholds’. There is an overall conclusion at the end of each section.

27. In this document:

- i. “the Government” refers to the UK Government;
- ii. “we” refers to the UK Government;
- iii. “BEIS” or “the Department” refers to the Department for Business, Energy, and Industrial Strategy, that has published the response to the consultation on behalf of the UK Government;
- iv. “the Programme” refers to the Smart Metering Implementation Programme, which will include the Department’s Smart Metering Implementation Programme Team and the wider group of partners and stakeholders responsible for delivering the rollout;
- v. “the existing all reasonable steps (ARS) obligation” or “the existing obligation” refers to the legal obligation on energy suppliers to take “all reasonable steps” (ARS) to install smart meters. The current end date for the ARS obligation is end June 2021, having been extended from end of 2020 to accommodate the initial impact of the COVID 19 pandemic.
- vi. “the new Policy Framework”, “the new Framework”, “the new obligation” and “the post-2020 obligation” all refer to the smart meter obligation which takes effect following the expiration of the “all reasonable steps (ARS) obligation”;

- vii. “the regulator” refers to Ofgem, the Government regulator for gas and electricity markets in Great Britain;
- viii. “the DCC” refers to the Data Communications Company, the provider of centralised data and communications services that underpin smart metering;
- ix. “Smart Energy GB” refers to the not-for-profit, government-backed, energy supplier-funded campaign helping everyone in Great Britain understand the importance of smart meters and their benefits to people and the environment;
- x. “COVID-19”, or “COVID” refers to the “coronavirus (COVID-19) pandemic”;
- xi. “the Energy Suppliers’ Report” or “the report” refers to the report commissioned from a third party by a trade body representing energy suppliers and included as part of the response to the November 2020 consultation as a critique of BEIS modelling and assumptions.

Post-2020 Tolerance Levels Proposal

QUESTIONS as consulted on in November 2020	
POST-2020 TOLERANCE LEVELS	
Q1	Do you agree that the key drivers of the model should be consumer acceptance, operational fulfilment, and operational capacity? Please provide rationale for your answer, supported with relevant evidence.
Q2	Do you agree with the assumptions used to reach the starting point of the new Framework i.e. the assumptions used to project the smart meter coverage before the start of the new Framework in July 2021? Please provide rationale for your answer, supported with relevant evidence.
Q3	Do you agree with our proposal to model the average smart meter coverage only for the first two years of the new Framework, given the uncertainty across the four-year period? Please provide rationale, supported with relevant evidence.
Q4	Do you agree with the assumptions used to project the first two years of the new Framework, i.e. 1 July 2021 to 30 June 2023? Please provide rationale for your answer, supported with relevant evidence.
Q5	Do you agree with using the BEIS rollout projections as the basis for calculating tolerance levels for years one and two of the Framework? Please provide rationale for your answer, supported with relevant evidence.
Q6	Do you agree that the tolerance level should be applied universally? If not, how do you propose that this could be applied on a fair basis? Please provide rationale for your answer, supported with relevant evidence.
Q7	Do you agree that the formula for the tolerance methodology proposed in paragraphs 79 to 83 of [the consultation] document gives effect to the tolerance proposals described in this consultation? Please provide rationale for your answer, supported with relevant evidence.
REPORTING THRESHOLDS FOR LARGE ENERGY SUPPLIERS	
Q8	Do you agree with the proposed changes to the reporting threshold for large energy suppliers? Please provide rationale for your answer.
Q9	Do you agree that the legal drafting in Annex C implements the policy intention proposed in paragraphs 113 to 119 of this document? Please provide rationale for your answer.

Part 1 – Assumptions and Projections (Questions 1-4)

A trade body representing energy suppliers supplemented its response with a report commissioned from a third party as a critique of BEIS modelling. For the purpose of this Government response, we will refer to this analysis as “the Energy Suppliers’ Report” or “the report”.

Question 1

Summary of responses to Question 1

Do you agree that the key drivers of the model should be consumer acceptance, operational fulfilment, and operational capacity? Please provide rationale for your answer, supported with relevant evidence.

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
4	13	0	0	1	3	21

28. A majority of respondents to this question either agreed, or agreed with caveats, that the key drivers of the model should be consumer acceptance, operational fulfilment, and operational capacity (with some respondents indicating “strong approval” that these were the main drivers underlying the projections). Only one energy supplier disagreed with this statement, on the basis that they disagreed with the idea of a target Framework as a whole.

Consumer acceptance and operational capacity

29. From those respondents agreeing, or agreeing with caveats, to the question, seven stated that consumer acceptance was the biggest driver in the projections. Their comments on the appropriateness of assumptions regarding consumer acceptance are included under Question 4 and addressed in more detail in Annex C.

30. Some respondents challenged the approach of using one homogenous driver of consumer acceptance and operational capacity across domestic and non-domestic consumer bases. These respondents maintained that the non-domestic sector had very specific challenges that were different from the domestic sector such as: the impact of COVID-19 and business specific lockdown restrictions on the financial viability of small businesses and the increase in cancellation rates as a result; the logistics around upgrading meters for certain customers when the business was not operating; restriction in the availability of variant meters; and, technical issues affecting the non-domestic sector specifically.

31. A Meter Asset Provider (MAP) emphasised that of the drivers, consumer acceptance was key as they regarded this factor as the main input into decisions about the scale of installation workforces.

Operational fulfilment

32. The Energy Suppliers' report acknowledged that including operational fulfilment as a driver would be reasonable. However, they suggested that for some energy suppliers an assumption of further improvement would not be reasonable and therefore should be excluded from projections. See Question 4 and Annex C for further discussion of their challenges on the assumptions used for this driver.

Government response to Question 1

33. As explained in the November 2020 consultation document, we have adapted our modelling approach following feedback provided by stakeholders in response to the 2019 consultation.¹⁶ The updated model is based on the rates at which eligible consumers are converted to smart meters. Noting the broad support from respondents to our question, we can confirm that, overall, the key drivers of the model will remain as consumer acceptance, operational fulfilment, and operational capacity.

34. We also note the concerns raised by respondents in relation to each of these drivers. Our position has been summarised below.

Consumer acceptance

35. We agree that consumer acceptance is one of the biggest drivers underpinning the forecasting model given the nature of the Programme. However, we disagree that consumer demand is currently a constraint in the delivery of the rollout. Similarly, we do not consider that the evidence used to support our consumer demand projections is over-optimistic or unrepresentative of consumers' preferences across the board. Whilst we understand individual energy suppliers will hold information on their specific customer base, BEIS's assumptions are supported by representative data collected by Smart Energy GB via their Outlook tracker and Re-contact Surveys, which is then adjusted in line with observed smart uptake from Smart Metering Official Statistics. Smart Energy GB's data is based on a robust methodology with a large sample size, collected on behalf of energy suppliers.

36. We do not agree with energy suppliers' claims that consumer attitudes have significantly worsened as a result of COVID-19 and that this negative effect will have an enduring impact on conversion rates. Our evidence does not show that underlying attitudes have changed as a result of COVID-19. Recent findings from Smart Energy GB surveys have been consistent with pre-pandemic trends, with the proportion of non-smart customers who would seek or accept a smart meter increasing for domestic (since May 2019) and microbusiness customers.¹⁷ We do recognise surveys with domestic consumers suggest there is a subset of consumers who are less likely to request a smart meter (at present) due to COVID-19, however, there appear to be two main drivers of this effect:

- The polarisation of attitudes (already negative customers are more likely to say they will not request an installation right now); and

¹⁶ [Smart meter policy framework post 2020: minimum annual targets and reporting thresholds for energy suppliers](#), November 2020.

¹⁷ Smart Energy GB 6 monthly Outlook (domestic) and annual microbusiness tracker.

- Consumers who are more likely to have greater health concerns regarding COVID-19 (in particular older consumers).

37. However, we have no evidence to suggest either of these factors will have an enduring or fixed effect.

Operational improvement

38. We have considered energy suppliers' concerns regarding BEIS's assumptions on the scope for further operational improvement. Whilst there is overall agreement that completion rates will improve going forward (as a result of greater installation experience), energy suppliers consider that this will be counteracted by installations becoming more difficult as installers have to deal with more "hard-to-install" premises later in the rollout. On this basis, they believe BEIS's assumptions are optimistic.

39. We disagree with this position. Our approach on operational improvement has taken into account the recent work BEIS has been undertaking collaboratively with energy suppliers during 2020/21 on the revision of the Operational Fulfilment Maturity Model to look at the end-to-end installation journey from a best practice and innovation perspective. From that work with industry, it remains the case that some energy suppliers are delivering consistently better completion rates than others, which continues to suggest that it is possible for other energy suppliers to improve their performance significantly. It is our view that improvements in cross-industry, average operational fulfilment can continue to be delivered as there remains considerable leakage¹⁸ that can be addressed throughout the end-to-end installation journey.

40. To determine the level of expected operational fulfilment to include in the model, we turned to information provided by energy suppliers during bilateral meetings. There are other sources of operational fulfilment data (such as large energy supplier benchmarking undertaken quarterly and shared with energy suppliers on an anonymised basis), which also show the spread of completion rates and performance exhibited by similar energy suppliers. Overall, this benchmarking data points to potentially larger improvement opportunities being possible beyond the more modest value we have used in our assumptions to calculate tolerance levels for the first two years of the Framework. BEIS continues to work with energy suppliers to support operational improvement activities and, in line with this, has recently made an updated version of the Operational Fulfilment Maturity Model available to all energy suppliers.

41. In addition to these points on the scale of opportunity that remains to be realised on operational fulfilment, we are not seeing evidence of an increase in "hard-to-install" premises which results in lower completion rates. In the last two years, as the rollout has progressed and smart penetration has increased, completion rates tracked via benchmarking have not declined. Instead, they have slightly improved, suggesting that energy suppliers are benefiting from past experience in relation to expertise, consumer engagement and operational capability. We do recognise and acknowledge that over time the proportion of non-smart customers remaining will steadily shift towards those less likely to accept the offer of a smart meter and the BEIS rollout projection reflects this changing profile. However, this does not mean that when a customer is converted that

¹⁸ Customers have booked an appointment for a smart meter installation but the installation has not been fulfilled (completed) for a variety of reasons.

their installation will necessarily be technically any harder to complete and so result in a greater proportion of failed installs.

42. Additionally, we note that a proportion of premises which had until recently been technically ineligible, are now eligible as solutions become available. Provided that installers are appropriately trained and equipped we would not expect there to be any increase in failure rates for these types of installations and it is not something we have seen in the supplier benchmarking data to date.

Operational capacity

43. On this basis, we consider that operational capacity – particularly the scale of the installer workforce – continues to be the main constraint in the delivery of the rollout. Historical rates of installation capacity (2018 and 2019) suggest that some energy suppliers have been materially reducing their installation work force in relation to their customer base size. We would contend that these reductions have significantly curtailed these energy suppliers' operational capacity, to the point when it is now insufficient to meet potential consumer demand.

44. As explained in our consultation document, the BEIS model projects installations based on consumer demand assuming that this demand can be fulfilled by energy suppliers. To address this, and to avoid a situation where the consumer conversion model generates meter installations above a rate that the market has demonstrated it can successfully fulfil, we apply a specific Installation Calibration Mechanism (the ICM) to make sure that any projections will be supported by market operational capacity. We will continue to use this calibration as part of the measures to ensure that the minimum installation requirements are realistic. However, this calibration mechanism should not be viewed as a ceiling or restriction on installation levels. We expect energy suppliers to increase their installation capacity to meet consumer demand, through operational improvement and, where necessary, through expansion of their smart meter installer workforce. The extension of ARS by a further six months provides the opportunity for energy suppliers to do this.

Non-domestic rollout

45. We note the differences highlighted in consultation feedback by energy suppliers (non-domestic and energy suppliers with mixed portfolios) regarding domestic and non-domestic rollouts, which may affect the suitability of a common tolerance level across the rollouts. Common themes raised in the feedback were: historic technical challenges and consumer attitudes; installation journeys specific to the non-domestic sector; and, the more recent impact of COVID-19 upon businesses. Whilst we challenge some of these points (particularly regarding technical availability of smart meter variants, where common solutions are now being rolled out across industry), we recognise that our projections were largely based on domestic data and did not account for historic factors affecting the non-domestic rollout.

46. Some responses to the consultation from non-domestic suppliers argued for a continuation of the ARS obligation on an enduring basis. We consider that extending ARS for the duration of the Framework for non-domestic suppliers only would be counter to our ambition to complete the rollout as soon as practicable, undermining our intention to deliver net zero cost effectively. This would also be too conservative an approach given that the non-domestic rollout has now reached a pivotal moment, with energy

supplier SMETS2 strategies in place, Smart Energy GB promotional activity underway, and technical challenges (including SMETS2 polyphase meter availability in the supply chain) largely resolved. We have therefore rejected the option of adopting an entirely different regulatory Framework for the non-domestic rollout. However, we have identified several areas where our forecasting model has been adjusted with non-domestic assumptions to reflect the specific circumstances raised by respondents. These are as follows:

Consumer attitudes and customer journey

47. Stakeholders raised several areas where the non-domestic consumer journey may differ from the domestic consumer journey. These included securing site access, the possibility that staff present on site are not the decision maker and the need for businesses to “power down” for an installation with an operational impact on the business.
48. Whilst our data continues to show that attitude distributions for aware non-domestic consumers are similar to domestic consumers, we acknowledge that the robustness of our model can be improved by using specific non-domestic attitudinal distribution data. We have also scaled conversion rates to historic non-domestic installation data. This reflects drivers of conversion that are harder to quantify. However, it should be noted that respondents to the consultation themselves did not provide robust quantitative data in their consultation responses to support high-level claims that non-domestic consumer conversion is more challenging.
49. Finally, we have taken a more conservative approach to modelling unaware customers based on consultation feedback received. This recognises that Smart Energy GB’s campaigning for the non-domestic sector is maturing and that higher levels of unaware consumers in the non-domestic space may, at least initially, be more challenging to convert than aware consumers.

ICM calculations

50. We recognise that the pace of smart installations in the non-domestic sector has historically been lower than in the domestic sector. Energy suppliers have been building upon the rollout of Advanced Meters (AMRs) to develop their SMETS2 strategies, often (for mixed energy suppliers) delivered by different parts of the business to their domestic portfolio. There has also been the need to procure smart meter variants, particularly for sites with larger supplies. Whilst meter variants (including SMETS2 polyphase) and gas-only solutions are now available and are being rolled out by industry, some energy suppliers are still working through logistical and contractual arrangements and building technical capacity to address these situations.
51. Equally, whilst difficult to fully quantify at this stage, we acknowledge the impacts of COVID-19 upon businesses (including closures and debt) and the ways in which this is underpinning current energy supplier strategies and approaches to non-domestic conversion.¹⁹
52. Taking these factors and non-domestic specific assumptions together requires us to split the market Installation Calibration Mechanism (ICM) into domestic and non-domestic components. We have taken the data used to create the original ICM (based on the rate

¹⁹ Baringa Partners, [Responding to Covid-19: The economic impact on energy and utilities](#), 2020.

of all meter installations as of Q3/4 2020, which at the time was impacted to some degree by the COVID-19 pandemic), which previously covered domestic and non-domestic combined, and have calculated the non-domestic specific component of the ICM. This is then used in the context of non-domestic specific assumptions to ensure reasonable annual installation requirements defined by non-domestic specific tolerance values, as described in the following paragraphs.

Tolerances

53. Taken together, these changes mean that we have created separate domestic and non-domestic tolerances to reflect the circumstances unique to the non-domestic sector. These ensure that the installation requirements of non-domestic energy suppliers are more tailored to their operational context. Responses to Question 5 specify the tolerance values, and responses to Question 7 confirm the methodology to calculate annual targets for Years 1 and 2 of the Framework. Annex C explains in detail the assumptions used and the model outcomes.
54. Beyond the distinction between domestic and non-domestic, respondents also highlighted a number of challenges with the assumptions used for each of these drivers. These are summarised in Question 4 and explored in detail in Annex C.

Question 2

Summary of responses to Question 2

Do you agree with the assumptions used to reach the starting point of the new Framework, i.e. the assumptions used to project the smart meter coverage before the start of the new Framework in July 2021? Please provide rationale for your answer, supported with relevant evidence

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
3	1	0	3	8	6	21

55. The majority of the respondents who answered this question disagreed or disagreed with caveats with the assumptions used by BEIS to project the industry-wide smart coverage before the start of the Framework, also referred to as the “starting point”. All of the respondents disagreeing with the starting point assumptions were energy suppliers or trade bodies representing them. Of the respondents agreeing or agreeing with caveats, one was an energy supplier.

COVID-19 impact

56. A majority of those disagreeing with the projections used by BEIS to calculate the starting point suggested that the projections had not fully taken into account the impact of COVID-19 on installation levels; in particular, the introduction of further national restrictions across Wales, Scotland and England in December 2020 and early 2021. Several energy suppliers requested that the tolerance levels were reassessed once new data became available showing the true impact of COVID-19 on installation numbers. One trade body representing energy suppliers called for an extension of the ARS Framework for the whole of 2021, or at least until there was a level of normality and no further significant uncertainties resulting from COVID-19.

57. There were mixed views as to the suitability of using energy suppliers’ own projections for H1 2021 (submitted by energy suppliers to Ofgem in November 2020 and therefore prior to the further COVID-19 restrictions coming into force) as the basis of the starting point projections. Respondents said that energy suppliers had historically over-estimated their projections provided to Ofgem under ARS and, to support their argument, they referred to the fact that half of the large energy suppliers had missed their 2019 ARS targets. They said that there was a traditional over-optimism in energy suppliers’ projections to Ofgem. This time this over-optimism had compounded with the impact of COVID-19 and further lockdown restrictions announced after submissions had been made to Ofgem. This had resulted in an overestimated starting point, with a knock-on effect on the projections for the first two years of the Framework which was likely to result in unrealistic targets.

Non-domestic impacts

58. Some respondents (mainly non-domestic energy suppliers) raised concerns that the starting point was calculated based on the operation of the domestic sector, which was not appropriate for the non-domestic sector. In particular, they raised concerns about the projected pace of the expected recovery of installation numbers to pre-COVID-19 levels following the easing of the main lockdown restrictions across Great Britain. Respondents suggested therefore that the starting point was unrealistic and needed to be revised.
59. On the same note, one respondent suggested that the ARS Framework should remain in place for the non-domestic sector until at least the end of 2021. They recommended that BEIS work closely with non-domestic energy suppliers during H2 2021 to understand whether the impacts of the COVID-19 pandemic had stabilised sufficiently to consider moving to a dedicated and separate non-domestic target/tolerance-based Framework.

Other comments

60. One respondent stated that it was not appropriate for the starting point to have been calculated based on the November 2020 large energy suppliers' forecasts extrapolated into a trajectory for all energy suppliers. They did not agree with this universal approach, arguing that it failed to recognise that individual energy suppliers would be at different stages in their rollout.
61. Some respondents disagreed with BEIS assumptions on eligibility (linked to the resolution of technical issues) in the calculation of the starting point and considered that the eligible-to-smart rate used by BEIS as the baseline in its modelling was too high. This challenge was included in the "Energy Suppliers' Report" and has been addressed in more detail in Annex C.
62. One respondent also raised what they considered to be a misalignment between the Government's announcements on accounting in the new Framework for SMETS1 meters installed after the SMETS1 end date, and whether Ofgem would consider these installations to be compliant under the current ARS Framework. This respondent also noted that the current SMETS1 enrolment obligations requiring energy suppliers to take 'all reasonable steps' to replace any unenrolled SMETS1 meters with SMETS2 meters by the end of 2021 could impact on delivery of the targets under the new Framework, given the diversion of operational capacity towards installations that would not count towards annual requirements.

Government response to Question 2

63. The latest evidence shows that COVID-19 continued to have an impact on energy suppliers' rollouts in 2020 and early 2021, including further stay-at-home guidance issued in January 2021 that affected installation volumes. This extended period of uncertainty may have affected energy suppliers' preparations for the new obligation. In their responses to the November 2020 consultation, energy suppliers and a trade body representing them emphasised that more time under the existing "All Reasonable Steps" (ARS) obligation would better enable them to handle the disruption that has been caused by COVID-19. We acknowledge these views and have taken account of rollout progress since the publication of our November 2020 consultation. The Government has therefore concluded that it will extend the existing ARS obligation for a period of six months from 1

July 2021 to 31 December 2021. As specified in the definitions in standard condition²⁰, this extension will be enacted by a letter of direction on behalf of the Secretary of State to shortly follow this publication. As a result of this extension, the new four-year smart meter Framework will begin on 1 January 2022.

64. On this basis, this response confirms the tolerance levels for Year 1 (2022) and Year 2 (2023) of the new Framework, which sets the methodology to calculate minimum installation requirements for these two years. The additional six month extension provides energy suppliers with further time to complete their planning and implementation ahead of the new Framework commencing on 1 January 2022. We expect all energy suppliers to make full use of this further period under the ARS Framework to finalise any operational arrangements and resolve any residual capacity constraints to enable them to meet their targets from the start of January 2022.

65. Full detail of how the new starting point on 1 January 2022 is calculated is included at Annex C.

Methodology for calculating the starting point

66. Since the consultation was issued in November 2020, further restrictions were introduced in different parts of Great Britain during December 2020 and in January 2021. We recognise that installation numbers have been impacted in Q1 2021 as a result of further restrictions, particularly in Scotland, where non-essential work was halted and subsequently re-started. These factors have been taken into account in the calculations of the starting point for the Framework. Further, the ICM has been devised on the basis of energy suppliers' proven operational capacity, including in the successful remobilisation period between lockdowns during 2020.

67. We note respondents' concerns on the assumptions used by BEIS to calculate the Framework starting point, particularly in relation to the non-domestic sector. We recognise the evidence of a mixed recovery from COVID-19. Whilst many energy suppliers were able to return to previous installation levels (or even higher) as restrictions eased, some saw a slower pace of recovery, particularly when targeting non-domestic customers. We have addressed the issue of heterogeneity between domestic and non-domestic rollouts in our response to Question 1, where we have confirmed our intention to separate the rollout projections for domestic and non-domestic and have different tolerance levels. On this basis, the calculation of the starting point for the non-domestic rollout will be subject to assumptions relating specifically to non-domestic customers. See Annex C for further details.

68. Some energy suppliers challenged that our use of an industry average of smart penetration to draw the target trajectory used for the calculation of the tolerance levels does not reflect the different stages energy suppliers are at in their rollouts. We recognise that energy suppliers will have different starting levels of smart coverage as a result of their different performances under the ARS obligation, and that this will impact the scale of their targets each year during the new Framework. However, the methodology underpinning the new Framework is based on the Government's ambition to achieve market-wide rollout. On this basis, the modelling used for the calculation of the tolerance levels is based on market-wide averages, energy suppliers' annual

²⁰ [Delivering a Smart System: Response to a Consultation on a Smart Meter Policy Framework - Annex C](#), June 2020.

installation requirements are then calculated based on their individual penetration levels and customer bases. The response to Question 7 of this document explains in more detail the formula and methodology used to calculate annual installation requirements.

69. We note the challenge raised by some energy suppliers about using energy suppliers' own projections for H1 2021, as provided to Ofgem, to feed into the starting point projections, given these rollouts tend to be overestimated as part of the ARS regime. We note these concerns, and therefore we have adjusted these forecasts to take into account this optimism bias in line with observed data. The calculation of the starting point also takes into account the most recent data available (from BEIS Official Statistics, Elexon and DCC) which is then projected forward using the most recent trends in installation rates. The outcome is compared with energy suppliers' projections and other information provided to BEIS, to ensure any relevant information has been considered. Detail on the assumptions used to calculate the starting point is included in Annex C.

SMETS1 meters under the new Framework

70. The June 2020 Government Response to a consultation on the new smart meter policy framework (paragraphs 146 and 184) concluded that SMETS1 smart meters **installed before the new Framework commences will be counted as part of the starting point** (regardless of whether the installation was compliant under ARS).²¹ That remains our view, notwithstanding the change in the commencement date for the new Framework.

71. We are aware of the concerns of some respondents regarding the potential impact on their operational capacity (and therefore their ability to meet their minimum installation requirements) if they were to have significant SMETS1 replacements to carry out alongside new smart meter installations. The SMETS1 enrolment project is operating at pace and proving successful for all meter types so we expect those types of meters which ultimately find they face insurmountable operational or technical migration blockers to be low. As part of the Government's ambition for a fully interoperable smart meter market, suppliers are required to enrol all SMETS1 meters within 12 months of becoming eligible or to replace them with SMETS2 meters where they have not. Currently this must be completed by the end of 2021. We are reviewing the timing of the replacement obligation and will consider any consequential interactions with the new Framework as needed.

²¹ [Delivering a smart system: government response to a consultation on smart meter policy framework post-2020](#), June 2020.

Question 3

Summary of Responses to Question 3

Do you agree with our proposal to model the industry average only for the first two years of the new Framework, given the uncertainty across the four-year period? Please provide rationale for your answer, supported with relevant evidence

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
5	8	0	1	5	2	21

72. The majority of respondents (13) agreed or agreed with caveats that the industry average should only be used for the first two years of the new Framework, given the uncertainty of forecasting across a four-year period. Six respondents disagreed or disagreed with caveats to the proposed approach.
73. From those respondents agreeing/agreeing with caveats, three respondents considered the proposed approach of forecasting only for the first two years to be sensible and pragmatic given the uncertainty created by COVID-19. However, others who had agreed in principle that it would not be sensible to model the rollout for four years considered it was unsuitable to model the rollout at all for the next two years given the ongoing uncertainty created by COVID-19 and the further lockdown restrictions announced in January 2021.
74. One respondent agreed that the proposal of setting targets for the first two years of the forecast was sensible for energy suppliers at an early stage in their rollouts, but not for those energy suppliers with very high penetration levels. The respondent said that such suppliers would increasingly struggle to secure installations. Taking this into account, they proposed alternative approaches for energy suppliers who have far exceeded the average installation requirements for industry (under the new Framework), including reverting to ARS to support the conversion of the residual tail of customers.
75. The minority of respondents that disagreed with the proposals did so for a variety of reasons. One respondent stated that it would have been more helpful for BEIS to set their intentions for the whole Framework (i.e. for four years) to allow energy suppliers to plan ahead, notwithstanding the uncertainty created by COVID-19 and the difficulty of calculating industry averages under those circumstances. Another disagreed with the proposal of forecasting for the first two years on the basis that if an energy supplier did not achieve their Year 1 target, they would be very unlikely to reach their Year 2 target.
76. Some respondents also raised the differences between the domestic and non-domestic sectors and the need to create separate regimes. They urged BEIS to recognise that it was not appropriate to use the same model and methodology for these sectors. In general, respondents called for a further extension of ARS for both domestic and non-

domestic customers until normality was restored after the COVID-19 pandemic. However, if this extension was not possible, they urged BEIS to extend ARS at least for the non-domestic market.

Mid-point review

77. The majority of respondents agreed or agreed with caveats with a mid-point review after two years. Respondents gave several reasons in support of the review but overall, they welcomed the opportunity to take account of new evidence to recalibrate the targets and tolerance levels particularly after the impact of COVID-19.
78. Several respondents agreed in principle with the mid-point review but suggested that a more regular review process (for example, annually, or at least at the end of the first year) would be preferable and would facilitate more 'dynamic' target setting.
79. A couple of respondents (large energy suppliers) supported the introduction of a mid-point review, but stated that it should not be limited to the revision of data inputs only. Instead, they called for a comprehensive assessment of the forecasting model and the methodology used to calculate the targets without any presumptions that the methodology used to calculate targets for the first two years of the Framework would be suitable to calculate targets for the later years of the Framework. Similarly, another respondent suggested that alongside an annual or end of Year 1 review, the mid-point review should include a more comprehensive evaluation of the target calculation methodology and assessment of the suitability of the policy for the later years of the Framework.
80. Finally, one respondent saw the mid-point review as an opportunity for a review of progress for the non-domestic sector in particular. They urged BEIS to use the review as an opportunity to provide consumers with a clearer message on the smart metering choices available and create further awareness in the non-domestic sector. The respondent was concerned that should installation numbers in the non-domestic sector be low over the next two years, this could potentially create a back-log of non-domestic installations in the final years of the Framework which could place significant pressure on the final years of the rollout.

Government response to Question 3

81. In line with the views of the majority of respondents, we can confirm that we will only set tolerances for the first two years of the Framework at this stage. As stated in our June 2020 response, we consider that adopting annual reviews could encourage short-term decision making, undermining the ambition of market-wide rollout.²²
82. On that basis, we can also confirm that the mid-point review will take place in 2023. This review will consider the tolerance methodology, including the forecasting model as well as the latest available evidence on the progress of the rollout. Targets for the third (2024) and fourth (2025) years of the Framework will be consulted upon following the

²² [Delivering a smart system: government response to a consultation on smart meter policy framework post-2020](#), June 2020.

conclusion of this review.

83. Whilst we did not agree with respondents who favoured an annual review of tolerance levels, we do appreciate the need for the Framework to be responsive, should exceptional, market-wide events occur. Therefore, if exceptional events were to occur that have a significant and negative market-wide impact on the rollout, such as was seen with the COVID-19 pandemic in 2020, BEIS will consider whether to carry out a review of the tolerance levels, which could include consulting on adjustments for Year 1 and/or Year 2.
84. Finally, we saw merit in a respondent's proposal that for energy suppliers who had already exceeded the stated targets for the first two Framework years (and who therefore would have zero annual installation targets), an alternative approach to driving their rollout activity may be required. We will bring forward a proposal and consultation on this in due course.

Question 4

Summary of responses to Question 4

Do you agree with the assumptions used to project the first two years of the new Framework, i.e. 1 July 2021 to 30 June 2023? Please provide rationale for your answer, supported with relevant evidence.

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	Response through summary ²³	No Response	TOTAL
1	2	1	2	10	1	4	21

85. The majority of respondents disagreed or disagreed with caveats with the assumptions used to project the first two years of the Framework. All those respondents disagreeing with BEIS assumptions were either energy suppliers or trade bodies representing them. Almost a quarter of respondents either did not answer the question or showed a neutral disposition towards the assumptions used. Three respondents (including one energy supplier) agreed or agreed with caveats to the assumptions used by BEIS.

86. As explained in Question 1, a trade body representing energy suppliers submitted an analytical report commissioned from a third party alongside their response to consultation. This report, which we are referring to as “the Energy Suppliers’ Report” or “the Report” was commissioned on behalf of their members and intended to:

- i. Provide an alternative model to BEIS’s to project an industry-wide smart coverage based on energy suppliers’ performance;
- ii. Analyse BEIS’s modelling and assumptions; and
- iii. Provide a critique to BEIS’s Impact Assessment.

87. The majority of the feedback received from individual energy suppliers on the BEIS modelling and assumptions was also included in the Energy Suppliers’ Report. This feedback has been described and addressed in detail in Annex C. A summary of the main feedback is included below:

- i. **Supplier heterogeneity:** the report states that setting the same tolerance levels for all energy suppliers based on industry-wide data might be problematic due to heterogeneity in energy suppliers’ customer bases.
- ii. **Consumer acceptance:** Overall, energy suppliers argue that COVID-19 is likely to have a long-lasting impact on customer attitudes and disagree that inferences from Smart Energy GB data can be applied to all energy suppliers evenly. The Energy Suppliers’ Report concludes that BEIS’s assumptions on consumer acceptance may be overly optimistic, impacting on the rollout projections and proposed tolerance levels.

²³ Some respondents did not answer this question specifically, however the summary and/or introduction to their responses has been taken into account, where relevant, when addressing responses to this question.

- iii. **Eligibility:** The report suggests that BEIS's assumptions on technical eligibility had been underestimated during H2 2019. Additionally, the report suggested that assumptions relating to other technological solutions, particularly Dual-Band Communication Hubs (DBCH),²⁴ were overly optimistic based on initial operational insights, leading to an excessive number of metering points being presented as eligible for smart conversion in the first year of the Framework.
- iv. **Attitude boost:** The report does not agree with BEIS's assumptions on improvements to customer conversion rate. The report suggests the application of "correction factors" to scale the modelled conversion rates down.
- v. **Operational fulfilment:** Whilst there is an overall agreement in the report that completion rates will improve going forward (as a result of experience), the report also suggests that this will be counteracted by installations becoming more difficult as installers have to deal with more "hard-to-install" premises later in the rollout. On this basis, the report suggests that BEIS's assumptions are optimistic.

88. One energy supplier raised specific concerns about BEIS's assumptions being incorrect as they argued that BEIS had failed to take into account the information provided by energy suppliers, particularly in relation to customer acceptance and engagement. They also said that BEIS's treatment of the evidence provided by energy suppliers was difficult to understand and lacked a proper degree of transparency.

89. Another energy supplier said that, whilst acknowledging the improvements made in the assumptions underlying the modelling, there remained notable concerns, particularly around the impact of factors they regarded as outside energy suppliers' control. These included issues with the DCC, which meant that operational capacity was a limiting factor on installs. This same energy supplier suggested that the Government needed to do more to make smart meters the regulatory default.

Government response to Question 4

90. Overall, in response to consultation feedback we have made a number of updates to our modelling in instances where robust evidence was shared by energy suppliers. Whilst important to make these changes, overall, they have not had a material impact on the ultimate ambition or pace of the Framework. Detailed responses to the feedback received on assumptions is included at Annex C, however in summary:

- i. **Supplier heterogeneity:** We accept that differences between domestic and non-domestic customers merit adjustments to the Framework to reflect particular non-domestic circumstances. Further detail of the assumptions used to determine the outcome of the projections, and relevant tolerance values for domestic and non-

²⁴ A smart metering installation usually includes gas and electricity smart meters, an In Home Display (IHD) and a Communications Hub (Comms Hub). These devices communicate with each other via a Home Area Network (HAN) which is generated by the Comms Hub. For further information please visit [Dual Band Communications Hubs \(smartdcc.co.uk\)](https://smartdcc.co.uk)

domestic rollouts, can be found in Annex C and responses to Questions 5 and 7. Beyond the distinction between domestic and non-domestic customers, we do not agree with respondents that there is sufficient evidence to support further differentiation amongst energy suppliers as a result of differences in customer bases (e.g. in relation to size, geographical distribution, or engagement). See further detail under Question 6.

- ii. **Consumer acceptance:** Our fundamental assumptions regarding consumer acceptance remain unchanged. Whilst we understand that individual energy suppliers will hold information on their specific customer bases, BEIS's assumptions are supported by representative data provided by Smart Energy GB via their Outlook tracker and Re-contact Surveys. Smart Energy GB's data is based on a robust methodology with a large sample size of data collected on behalf of energy suppliers, designed to be representative of the GB population.
- iii. **Eligibility:** Broadly speaking, we do not think that this is a valid criticism of our modelling approach regarding eligibility assumptions. However, we acknowledge that there have been some issues with the availability of Dual-Band Communication Hubs and so we have adjusted our eligibility series to reflect the delay in market-wide availability of the technical solution.
- iv. **Attitude boost:** The Energy Supplier's Report offered some helpful suggestions for computational adjustments in our model in relation to the 'attitude boost'. We have accepted some of the changes suggested and adjusted our model accordingly.
- v. **Operational fulfilment:** We do not accept respondents' challenges that our assumptions of operational improvement were unrealistic. Our assumption is based on information provided by energy suppliers and is a more conservative estimate of the potential operational improvement gains than other sources, such as energy supplier benchmarking, could indicate. Further, we have not received any evidence to justify that installations will become more difficult to fulfil as installers deal with "harder-to-install" premises in Years 1 and 2 of the new Framework. Completion rates in recent years have not been deteriorating (indeed they have improved slightly) as the rollout progresses, which suggests energy suppliers can benefit from past experience in relation to expertise, consumer engagement and operational capability. BEIS continues to work with energy suppliers to support operational improvement activities and, in line with this, has recently made an updated version of the Operational Fulfilment Maturity Model available to all energy suppliers (please refer to Question 1 for further details).

91. We cannot endorse the views from one energy supplier regarding issues with the transparency of our forecasting model and limited access to the evidence used for the assumptions. As part of the consultation document, BEIS offered energy suppliers and their contractors the opportunity to access the forecasting model and the assumptions, subject to signing a disclosure agreement. BEIS also provided a dedicated email address managed directly by the Department's economists working on the forecast so as to facilitate engagement with energy suppliers and address any questions/clarification points.

Part 1- Conclusion

DECISION 1: The latest evidence shows that COVID-19 continued to have an impact on energy suppliers' rollouts in 2020 and early 2021, including further stay-at-home guidance issued in January 2021 that affected installation volumes. This extended period of uncertainty may have affected energy suppliers' preparations for the new obligation. In their responses to the November 2020 consultation, energy suppliers and a trade body representing them emphasised that more time under the existing "All Reasonable Steps" (ARS) obligation would better enable them to handle the disruption that has been caused by COVID-19. We acknowledge these views and have taken account of rollout progress since publication of our November 2020 consultation. The Government has therefore concluded that it will extend the existing ARS obligation for a period of six months from 1 July 2021 to 31 December 2021.

DECISION 2: The new four-year smart meter Framework will start on 1 January 2022, following the extension of the existing ARS obligation to 31 December 2021. The tolerance levels for the first two years of the Framework are confirmed in Part 2 of this document. These tolerance levels will feed into the calculation of minimum installation requirements for Year 1 (1 January to 31 December 2022) and Year 2 (1 January to 31 December 2023) for individual energy suppliers. Details are provided in Part 2 of this document.

DECISION 3: The Government confirms that there will be a review point during Year 2 (2023) of the Framework, followed by a consultation on the tolerance levels for the remaining third and fourth years of the Framework. The focus of the review will be the appropriateness of the tolerance levels methodology in line with developments in market conditions, consumer attitudes and energy supplier performance. Tolerance levels for Year 3 and Year 4 will be consulted upon following that review point.

DECISION 4: It remains the Government position that all energy suppliers, regardless of size and date of entry into the market, will be subject to the same Framework, and the same tolerance levels will apply to calculate installation requirements. However, we have noted the distinct contextual factors highlighted by energy suppliers which affect the suitability of common tolerances between domestic and non-domestic rollouts. Therefore, we have concluded that separating the domestic and non-domestic rollouts, thus creating separate tolerance levels, better reflects the unique circumstances affecting the non-domestic market.

DECISION 5: The Government plans to bring forward a consultation with proposals on alternative ways to drive rollout activity for energy suppliers where tolerance values do not apply e.g. for those who have already exceeded their installation requirements for the first two Framework years.

DECISION 6: If exceptional events were to occur that have a significant and negative market-wide impact on the rollout, the Government will consider whether to carry out a review of the tolerance levels, which could include consulting on adjustments for Year 1 and/or Year 2 of the Framework.

Part 2 – Tolerance Levels and Targets (Questions 5-7)

Question 5

Summary of responses to Question 5

Do you agree with using the BEIS rollout projections as the basis for calculating tolerance levels for Years 1 and 2 of the Framework? Please provide rationale for your answer, supported with relevant evidence.

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
1	5	0	4	9	2	21

92. The majority of respondents disagreed or disagreed with caveats with BEIS rollout projections being used as the basis for calculating tolerance levels for Years 1 and 2 of the Framework. Only one respondent agreed with the proposed approach, whilst five agreed with caveats. Two did not specifically respond to the question.

93. Most of the respondents disagreeing with the proposed approach did so on the basis of a fundamental disagreement with BEIS’s projections (see Question 4 and Annex C). One respondent said that drawing a line to 100% smart coverage by mid-2025 was rather arbitrary and that setting accurate annual targets was impossible, as demonstrated by overly optimistic projections made by large energy suppliers to Ofgem in past years.

94. Respondents highlighted that using the same projections for both domestic and non-domestic customers was inappropriate, pointing to the differences between customer bases and how they had been affected by COVID-19.

95. Some respondents felt that tolerance levels should be set to allow for even greater flexibility. They reasoned that smart meter installations were becoming increasingly challenging, even though they recognised there had been significant technological improvements which had improved eligibility.

Churn on change of supply

96. Some large energy suppliers asked that the tolerance calculation for Year 2 be adjusted to account for the impact of churn amongst customers with smart. Specifically, they suggested that the Year 2 target calculation use an energy supplier’s contribution to industry-wide smart penetration, as opposed to their individual smart penetration as a starting point. One energy supplier argued that the BEIS consultation had failed to account for churn because: (i) there was no evidence to support BEIS’s reasoning for not taking into account churn in the calculation of targets; and (ii) BEIS failed to recognise that its churn proposals were detrimental, particularly for energy suppliers with smart penetration levels ahead of market average. They concluded that, as the current methodology for annual target calculations does not adjust for positive or negative churn,

this resulted in unfair penalisation of energy suppliers who are investing in the rollout infrastructure whilst rewarding other energy suppliers who meet their targets by increasing their smart customer base through acquisition via churn.

97. This same energy supplier also argued that BEIS did not provide any evidence to support its assumptions that energy suppliers could change their pricing/customer retention strategy to dampen churn. They said that BEIS's reasoning suggested that energy suppliers could reduce prices for smart customers in order to mitigate smart churn. However, they stated that given the funding challenges faced by energy suppliers, prices could not simply be reduced unless prices for other customers (i.e. with traditional meters) were increased. On this, they highlighted that customers with traditional meters were often subject to the default tariff cap which prevented energy suppliers from applying this "cross- subsidy".
98. One energy supplier (and one trade body on its behalf) also raised the impact of churn in the context of the non-domestic sector specifically. They considered that the target calculation methodology proposed by BEIS would have a disproportionate effect on non-domestic energy suppliers. This was because in the non-domestic sector, one customer did not necessarily equal one or two meter points, but instead could equate to several thousand meter points. On that basis, if a non-domestic energy supplier were to lose a handful of large, traditional meter customers within year, this would negatively affect their ability to meet their installation target for that year (which had been calculated on their original customer portfolio). These respondents suggested that the current proposals made no allowances for that type of scenario and that BEIS needed to address it in the target calculation methodology.

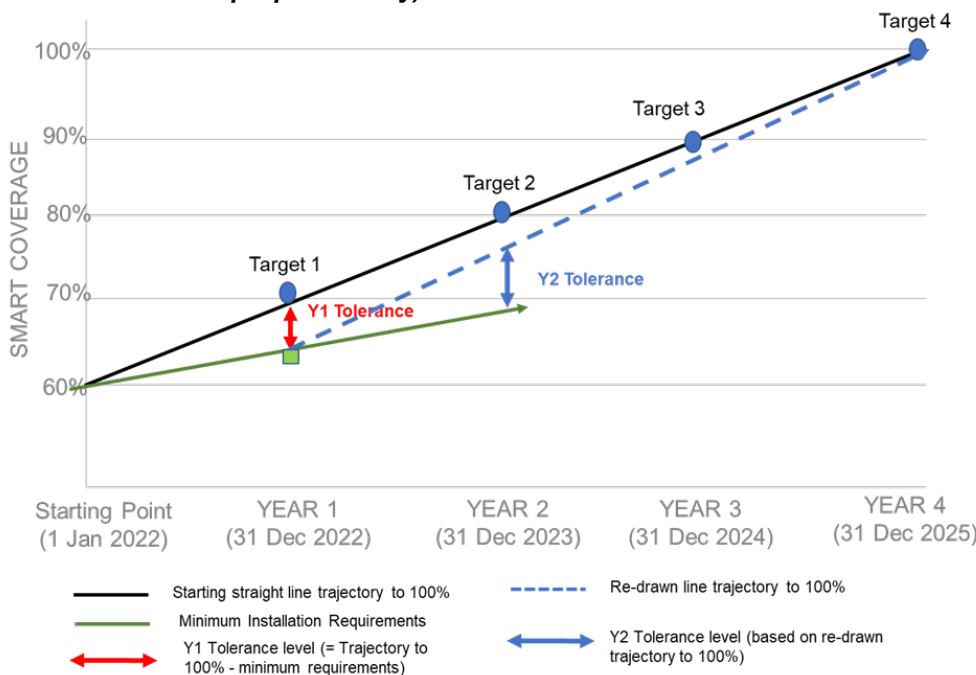
Government response to Question 5

99. The Government has considered the views of energy suppliers in relation to the assumptions underlying the projections. A summary of these is included in the response to Question 4 and further detail is provided in Annex C.
100. The Government has accepted respondents' feedback regarding differentiating between domestic and non-domestic rollouts (see response to Question 1 for rationale and Annex C for detail on assumptions).
101. The Government notes respondents' requests for greater flexibility to respond to the impact of COVID-19 since the consultation, and has confirmed (see response to Question 2) that the current ARS obligation will be extended to 31 December 2021.
102. The November 2020 consultation considered two options to calculate tolerance levels for Years 1 and 2 of the Framework. In option 1, tolerance levels (for both years) would be calculated as the difference between the estimated industry-wide smart coverage and a straight line drawn from the starting point (market average smart coverage at the beginning of the Framework) to 100% (market-wide coverage) at the end of the Framework. In Option 2 (our minded-to position) the tolerance for Year 1 would be calculated as per option 1, but for Year 2 the line to 100% coverage would be redrawn in line with the smart coverage achieved at the end of Y1 (assumed to be the minimum installation requirements for that year), with the tolerance level for Year 2 calculated against the newly drawn line.

103. We are now confirming our decision to use our minded to position (option 2) as the methodology to calculate the percentage tolerance levels for Years 1 and 2 of the Framework. This approach ensures a consistent trajectory towards market-wide rollout avoiding installations being pushed back towards the later years of the Framework. If tolerance level percentages were to be calculated against the original trajectory towards 100% as in option 1 and energy suppliers installed at levels below the 100% trajectory line, annual installation requirements would keep on dropping (as a higher tolerance allowance based on installations consistent with 100% trajectory line would be applied but against a lower level of installations). If this approach were repeated in the future years of the framework, this would have a compounded effect which would risk creating a “hockey stick” effect in the rollout delivery. This effect would counter the Programme’s overall ambition to deliver the rollout as soon as practicable.

104. The methodology to calculate the percentage of tolerance levels confirmed in this Government decision is further illustrated in graph 1 below:

Graph 1: Illustration of the methodology to calculate tolerance levels re-drawing trajectory towards 100% after Year 1 installations requirements (please note the example is hypothetical and for illustrative purposes only)



105. The percentage tolerance levels will be applied to individual suppliers in each year, subtracting them from the individual supplier’s line to 100% coverage to calculate their annual installation requirement. The line towards 100% will be different for each supplier as they will have different starting points, in line with their individual progress towards rollout completion.

106. Table 3 below confirms the tolerance levels for Years 1 and 2 of the new Framework, following this methodology.

Table 3: Smart coverage and tolerance levels for Year 1 and Year 2 (domestic and non-domestic rollouts)

Rollout	Position at year end	Y0 (Starting Point) December 2021	Y1 December 2022	Y2 December 2023
Domestic	Target (Straight line to 100%)		61.9%	72.1%
	Smart Penetration	49.2%	58.5%	66.9%
	TOLERANCE		3.5%	5.1%
Non-Domestic	Target (Straight line to 100%)		61.7%	70.2%
	Smart Penetration	49.0%	55.6%	61.8%
	TOLERANCE		6.1%	8.3%

To note:

- i. The tolerance calculation for Year 1 does not include the addition of new metering points expected during Year 1. As metering point growth in a given year is somewhat uncertain (when considered at the beginning of the Framework Year), it would not be reasonable for the tolerance calculation to retroactively consider new metering points.
- ii. The tolerance calculation for Year 2 then accounts for new metering points created in Year 1 at the beginning of the new year. This will lower slightly the smart coverage percentage achieved at the end of Year 1. Subsequently, the target line is redrawn to 100%, accounting for the smart coverage achieved in Year 1 and the increase in metering points in Year 1 (which decreases smart coverage and increases the Year 2 tolerances in proportion to Year 1 metering point growth).
- iii. Tolerance levels produced by the calculation for Year 1 and Year 2 for the domestic rollout are lower than the ones produced by the calculation for the November 2020 consultation mainly as a result of the changes in the starting point, now moved back six months. This means that the smart coverage at the beginning of Year 1 of the Framework is higher than it would have been if the framework had started on 1 July 2021 and therefore the trajectory towards 100% is less steep (as it is drawn from a higher point), hence producing the lower tolerance levels.

Smart churn on change of supply

107. In our June 2020 response, we emphasised that we considered customer churn to be a reflection of a dynamic energy market in which consumers switch energy suppliers to obtain the best deal, encouraging competition. We also reiterated that the new Framework represents a significant improvement from the current ARS obligation, where targets are assessed on levels of smart coverage and under which energy suppliers may be more adversely impacted by churn.

108. We do however recognise the challenges faced by energy suppliers which are more advanced in their rollout. The evidence provided showed that while these energy

suppliers were likely to lose smart meter customers in proportion to their penetration levels, they would likely only regain them at the market average (i.e. a lower) penetration rate. As the current methodology for annual target calculations does not adjust for positive or negative churn, this may result in unfair penalisation of energy suppliers which have invested in the rollout infrastructure whilst rewarding other energy suppliers which increase their smart customer base through churn.

109. We are therefore proposing an adjustment in the calculation of Year 2 targets, which would mitigate the effect of churn of smart meter customers between energy suppliers and focus the targets on installation numbers only, while at the same time continuing to support the Government's overall aim of reaching market-wide rollout of smart meters as soon as possible. This adjustment will address both:

- i. Positive smart churn (when more smart meters are **gained** than lost through churn).
- ii. Negative smart churn (when more smart meters are **lost** than gained through churn).

110. The Government expects to consult in summer 2021 on these proposed adjustments.

Non-smart churn

111. Two respondents raised the challenge that could arise if energy suppliers were to lose a large number of non-smart meter points within the year. We recognise the impact of this would be most pronounced amongst non-domestic customers, where one customer may have many hundreds of meter points, exacerbating the impact of churn. The trajectory used by the Framework in the first two years, together with the tolerances around annual targets is intended to provide energy suppliers with the flexibility to respond to this sort of event.

112. We have considered how cases of very substantial customer loss could be adjusted for in-year. We gave consideration to designing a retrospective adjustment of the installation requirements for Year 1 to neutralise the impact of in-year non-smart churn. One of the fundamental components of creating this adjustment is the existence of a condition that needs to be satisfied before the adjustment is triggered i.e. a triggering threshold for loss of non-smart metering points. However, respondents did not provide data in their consultation responses to illustrate whether this had occurred previously, or on what scale, and we also do not have historic data that would evidence this. Further, even if a suitable triggering threshold could be defined, the energy supplier may still be able to meet their target through their remaining non-smart meter customers, any new non-smart meter customers, and by installations carried out before the customers switched energy supplier.

113. Given the way in which the targets are calculated for the first two years of the Framework, we consider that the loss of non-smart meter points would have to be so substantial before it would jeopardise compliance with the targets that it would be most likely to occur if an energy supplier goes out of business or decides to deliberately wind down its business. We do not propose to cater for this scenario in the drafting of the fixed target licence conditions, or in the tolerance methodology, as we judge it likely that the relevant supply licence would be liable to be revoked in these events.

114. Overall, whether in cases of a very large loss of meter points or other exceptional circumstances affecting individual energy suppliers, Ofgem's enforcement guidelines indicate that these 'wider considerations' could be taken into account.²⁵ Therefore, we do not propose to cater for this in the drafting of the fixed target licence condition or in the tolerance methodology.

²⁵ Ofgem, [The Enforcement Guidelines](#), October 2017

Question 6

Summary of responses to Question 6

Do you agree that the tolerance level should be applied universally? If not, how do you propose that this could be applied on a fair basis? Please provide rationale for your answer, supported with relevant evidence.

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
5	2	0	1	10	3	21

115. From the five respondents agreeing with the application of universal tolerances, four were energy suppliers, and three of these, large energy suppliers. They noted their agreement with universal targets as they considered the programme to be an essential infrastructure upgrade and an enabler to Half Hourly Settlement and net zero. They also considered that, to date, there had been different expectations of large versus small energy suppliers, which created a gap in the rollout that needed to be closed.

116. Around half of respondents disagreed or disagreed with caveats that the tolerance levels should be applied universally. They claimed that applying a universal tolerance was discriminatory because it is not designed to accommodate factors that serve to differentiate energy suppliers. They claimed that different energy suppliers may face different levels of efficient cost in rolling out smart meters, depending on such factors as (i) the technical difficulties of installing smart meters in the premises in question; (ii) the geographic density of the customers in question; and (iii) the different demographics or characteristics of the populations of customers that they serve, who may be more or less willing than the average to agree to accept a smart meter.

117. A large proportion of the respondents (including energy suppliers and trade bodies) raised concerns about the impact of applying a universal tolerance to the non-domestic sector. One of the respondents agreed with the same tolerance levels applying across the same market, but argued that domestic and non-domestic sectors were different markets.

118. Respondents considered that the BEIS proposal of a universal tolerance across industry failed to acknowledge the different nuances of the non-domestic sector, such as:

- i. Meter variant availability.
- ii. Differing consumer attitudes.
- iii. The different impact of COVID-19.
- iv. The difficulty in identifying property keyholders/decision makers.
- v. Site access difficulties and provision of Risk Assessment Method statement.
- vi. The large number of unoccupied sites.

119. As a result of these differences, these respondents called for alternative options for the non-domestic sector including:

- i. A 12-month extension of ARS to allow for time to understand the impact associated with COVID-19 and provide more data to BEIS to ensure appropriate modelling for the non-domestic sector.
- ii. Implementation of a customer mandate for non-domestic customers.
- iii. Amending the proposed Framework to ensure it is reflective of non-domestic challenges.

120. The issue of financeability was also raised by some energy suppliers in their responses to the consultation. One energy supplier raised concerns about the financial and material risks they were likely to face as a result of not being able to meet their targets because of factors outside their control that were not sufficiently covered by the tolerance levels. Another energy supplier highlighted the challenges in relation to managing customer debt when COVID-19 restrictions were lifted. One energy supplier argued that the consultation did not properly engage with the fundamental interaction between the rollout obligations and Ofgem's role in setting the default tariff price-cap. They said that BEIS failed to consider whether the tolerances were consistent with maintaining energy suppliers' financial viability.

121. A large energy supplier argued that a universal approach could lead to unfairness given the way that customers demand for smart meters and their geographic distribution (and therefore their technical issues) differed between energy suppliers.

122. One respondent was concerned about the impact of BEIS's target Framework on smaller energy suppliers. This respondent, a small energy supplier, stated that "front-loading" the installation targets for all energy suppliers would put pressure on installers (including third party installers), in-house teams and meter manufacturers. They argued that this would drive up costs. They added that it would be the smaller market participants who would bear the worst of the impact as they had lower buying and borrowing power, which in turn would entail relatively higher costs for small energy suppliers. According to their arguments, small energy suppliers would have higher rollout costs on a "per customer" basis as these costs would be spread across a smaller customer base. These costs would also be higher as they would include not only implementation costs, but also operating costs associated with those of a growing energy supplier. They also disagreed with BEIS's assumption that small energy suppliers usually have more engaged customers and therefore these customers are easier to convert. On this, they did not believe that there was sufficient evidence suggesting a correlation between switching engagement and a willingness to accept a smart meter.

123. Finally, there were a number of respondents disagreeing with the application of universal tolerances as they objected to the application of a target Framework in general. They argued that this kind of regime did not take account of energy suppliers' specific circumstances, particularly in relation to the impact of the pandemic. On that basis, they urged BEIS to consider a further extension of ARS to allow for the uncertainties created by COVID-19.

Government response to Question 6

Application of universal tolerances

124. The Government has noted energy supplier concerns that universal tolerances do not differentiate between energy suppliers. In the 2019 consultation (and in paragraph 85 of the November 2020 consultation document) we acknowledged there will be delivery challenges and external factors, some common amongst energy suppliers and others specific to each individual energy supplier and their operating model. The concept of a tolerance value was included in the licence condition to account for these external factors, thereby providing energy suppliers with some additional flexibility in delivering market-wide rollout.
125. Aside from the specific contextual factors regarding the non-domestic rollout which have been addressed (see our responses to Questions 1 and 5), we do not accept there is compelling evidence to support further differentiation within energy suppliers as a result of the heterogeneity in customer bases. Specifically:
- i. Respondents failed to provide sufficient evidence to support the extent to which (if any) other factors have an ongoing differential impact on these energy suppliers which makes it harder to meet the targets.
 - ii. Any potentially negative differences between energy suppliers might be counterbalanced by other potentially positive factors that differentiate these energy suppliers.
 - iii. The majority of technical constraints associated with installing smart meters have now largely been resolved, including those impacting specific geographical areas.
 - iv. Some of the factors that differentiate energy suppliers are as a result of their past practices and choices.
126. Further, a universal approach seeks to ensure that all energy consumers are included in the rollout no matter who their energy supplier happens to be. A universal approach also supports our objective to normalise smart meters so they are the default meter used across the whole of Great Britain by all energy suppliers. This approach seeks to put all energy suppliers on a common track to market-wide rollout, reducing the extent of the current different levels between them. Ultimately, for these reasons, a universal approach helps support the Government's commitment to meeting net zero.
127. Therefore, we have decided to set universal tolerance levels (but separately amongst domestic and amongst non-domestic energy suppliers) as part of the calculation of annual installation requirements.

Default tariff cap

128. Some large energy suppliers have indicated concern as to the interaction of the price cap and targets. One energy supplier asserted their concerns that the price cap will not fully cover the costs of fixed targets for those energy suppliers who have above average

smart meter costs because they have a higher number of existing smart meter customers than the market average.

129. As stated in the Energy White Paper published in December 2020, achieving market-wide rollout continues to be a Government priority.²⁶ We consider that setting annual installation targets is fundamental to ensuring market-wide smart coverage. However, our November 2020 consultation also acknowledged the potential impact of the default tariff price cap on the funding available to energy suppliers to invest in the delivery of the Smart Metering Implementation Programme.

130. On 29 April 2021, Ofgem published their final consultation on the Smart Metering Net Cost Change (SMNCC) allowance for both credit²⁷ and meters in Pre-payment mode²⁸. These consultations are each the third in a series (for each credit and prepayment) that will lead to a decision in August 2021. When setting the level of the cap, Ofgem have regard to the need to ensure that energy suppliers who operate efficiently are able to finance their regulated activities. The Ofgem consultation explains how it is taking the new Framework into account in its proposals. In particular, with customers with credit meters, Ofgem is proposing to set the smart metering allowance at a level which would allow an efficient energy supplier with a market-leader rollout profile to meet its smart meter obligations. Based on those proposals, we consider energy suppliers should be able to recover sufficient revenue to reflect the costs of meeting their installation requirements under the new Framework, provided the energy supplier is efficient.

Small energy suppliers

131. We have considered the arguments raised by small energy suppliers regarding the impact that financing new installation targets could have for them. Whilst we can understand their concerns, we do not agree with their arguments for a number of reasons:

- i. We have reflected on the claim that their costs will be disproportionately high, particularly for those energy suppliers with low smart penetration. They claim that because these energy suppliers will need to install a greater proportion of their customer base in one year, and the costs will be spread across a smaller customer base, that the costs will be higher on a per-customer basis. We do not agree with this rationale. Their argument wrongly implies that the entire deployment cost is incurred in-year, when instead it is spread over the lifetime of the smart meter asset. This reverses the effect and highlights that a large energy supplier with higher penetration and a larger customer base will be in fact paying more on a per-customer basis as a result of costs incurred in previous rollout years being spread into the current year.
- ii. These energy suppliers also argued that the consultation ignores associated implementation costs which affect a small and growing energy supplier disproportionately (e.g. implementing the Warm Home Discount, ECO, or Smart Energy GB costs). The new costs incurred by an energy supplier as it grows are not in the scope of this consultation and are well understood by industry. In fact,

²⁶ [Energy white paper: Powering our net zero future](#), December 2020.

²⁷ Ofgem, [Price Cap – final consultation on updating the credit SMNCC allowance](#), April 2021.

²⁸ Ofgem, [Price Cap – final consultation on updating the PPM SMNCC allowance](#), April 2021.

implementation costs are likely to be lower for many small energy suppliers as their technology costs are generally expected to be lower due to use of newer, lower-cost technology options and they have also not incurred the costs of testing activities which have largely been carried by larger energy suppliers. In any case, most of the required technological investments to support rollout should now be coming to an end as the smart ecosystem matures.

- iii. We do not agree with the argument that installation targets drive inefficient costs that will fall disproportionately on small energy suppliers due to their lack of buying power. Assets are procured through MAPs who have scaled buying power. Further, supply chains are well established and proven. We also consider that the installation capacity required to deliver the targets exists within the market today so large numbers of additional operatives are not required and consequently we do not anticipate (nor have we seen evidence of) increasing wage costs. We also note the development of innovations in terms of use of shared installer work forces between industry parties, which small energy suppliers are able to access to deliver their installation operations.

Question 7

Summary of responses to Question 7

Do you agree that the formula for the tolerance methodology proposed in paragraphs 79 to 83 of this document gives effect to the tolerance proposals described in this consultation? Please provide rationale for your answer.

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
7	4	0	0	4	6	21

132. The majority of respondents agreed or agreed with caveats that the formula for the tolerance methodology proposed in paragraphs 79 to 83 of the consultation document gave effect to the tolerance levels proposed in the consultation. Only four respondents disagreed with this proposal, with six not providing a response.
133. All of the respondents disagreeing/disagreeing with caveats with the formula reiterated their general disagreement with the basic principles of a targeted Framework and the universal application of tolerance levels. They asserted that BEIS's projections were based on a flawed methodology and over-optimistic assumptions with regard to consumer demand and conversion rates which, they considered, created unrealistic targets and resulted in an unacceptable regulatory risk (see Question 4 and Annex C for further detail on projections and assumptions).
134. One respondent argued that BEIS's formula appeared to have taken account of the size of an energy supplier's customer base but ignored other major customer base factors, such as their attitudes, arguing that remaining customers were likely to be "unwilling" or "not responsive" to smart meter related communications.
135. With regards to the non-domestic sector, respondents argued that BEIS's methodology and therefore the proposed formula had not considered the impacts of churn on non-domestic energy suppliers, particularly in relation to non-smart churn, should they lose a significant proportion of their customer base in a multi-site contract scenario (see Question 5 for further details on churn).

Government response to Question 7

136. We have considered all the responses received in relation to the tolerance value of "Ty" and the formula used to calculate annual installation requirements. Overall, respondents were content with the proposed formula, although some respondents did not agree with the value of the tolerance levels as a result of their overall disagreement with the assumptions and projections underpinning these values. We have addressed those challenges in the responses to previous questions. Some respondents did not agree with the formula to calculate the annual installation requirements. However, this formula was

confirmed in our June 2020 Government Response and included in standard licence conditions 33A and 39A. The formula itself was therefore not within the scope of the November 2020 consultation.

137. Tolerance values have therefore been calculated on the basis of the methodology set out in our response to Question 5 of this document. Tables 4 to 6 confirm the value of T_y for Years 1 and 2 of the new Framework under the relevant standard licence conditions.

Table 4: Methodology for the calculation of T_y for Years 1 and 2 of the Framework

<p>$T_y = \text{Dom}T_y + \text{NDom}T_y$</p> <p>Where $\text{Dom}T_y$ and $\text{NDom}T_y$ are to be calculated in accordance with Table 5 (for the First Rollout Year) and Table 6 (for the Second Rollout Year).</p> <p>If as a result of the above calculation $T_y > 1/a_y * \text{RSMS}_y$, then $T_y = 1/a_y * \text{RSMS}_y$. This ensures N_y is never a negative number.</p> <p>For the purposes of gas supply licences, a_y, RSMS_y and N_y have the meaning given in Standard Condition 33A. For the purposes of electricity supply licences they have the meaning given in Standard Condition 39A.</p>

Table 5: Value of $\text{Dom}T_y$ and $\text{NDom}T_y$ for Year 1 of the Framework

FRAMEWORK YEAR 1 (1 January 2022 to 31 December 2022)	
DOMESTIC ROLLOUT [TOLERANCE LEVEL= 3.5%]	
The value of $\text{Dom}T_y$ for the First Rollout Year (T_1) shall be equal to $0.035 * \text{MS}_1$	
Where:	
For the purposes of Standard Condition 33A of gas supply licences.	
MS_1	means the total number of Domestic Premises in respect of which the licensee is the Relevant Gas Supplier on the date which immediately precedes the start date of the First Rollout Year.
For the purposes of Standard Condition 39A of electricity supply licences.	
MS_1	means the total number of Domestic Premises in respect of which the licensee is the Relevant Electricity Supplier on the date which immediately precedes the start date of the First Rollout Year.
NON-DOMESTIC ROLLOUT [TOLERANCE LEVEL= 6.1%]	
The value of $\text{NDom}T_y$ for the First Rollout Year (T_1) shall be equal to $0.061 * \text{NDMS}_1$	
Where:	
For the purposes of Standard Condition 33A of gas supply licences.	
NDMS_1	means the total number of Designated Premises ²⁹ in respect of which the licensee is the Relevant Gas Supplier on the date which immediately precedes the start date of the First Rollout Year.
For the purposes of Standard Condition 39A of electricity supply licences.	

²⁹ [Under Standard Condition 33A \(gas supply\)](#) "Designated Premises" means Non-Domestic Premises at which the measured annual consumption of gas is 732,000 kWh or less.

NDMS ₁	means the total number of Designated Premises ³⁰ in respect of which the licensee is the Relevant Electricity Supplier on the date which immediately precedes the start date of the First Rollout Year.
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Table 6: Value of DomT_y and NDomT_y for Year 2 of the Framework

FRAMEWORK YEAR 2 (1 January 2023 to 31 December 2023)	
DOMESTIC ROLLOUT [TOLERANCE LEVEL= 5.1]	
The value of DomT _y for the Second Rollout Year (T ₂) shall be equal to 0.051*MS₂	
Where:	
For the purposes of Standard Condition 33A of gas supply licences.	
MS ₂	means the total number of Domestic Premises in respect of which the licensee is the Relevant Gas Supplier on the date which immediately precedes the start date of the Second Rollout Year.
For the purposes of Standard Condition 39A of electricity supply licences.	
MS ₂	means the total number of Domestic Premises in respect of which the licensee is the Relevant Electricity Supplier on the date which immediately precedes the start date of the Second Rollout Year.
NON-DOMESTIC ROLLOUT [TOLERANCE LEVEL= 8.3%]	
The value of NDomT _y for the Second Rollout Year (T ₂) shall be equal to 0.083*NDMS₂	
Where:	
For the purposes of Standard Condition 33A of gas supply licences.	
NDMS ₂	means the total number of Designated Premises in respect of which the licensee is the Relevant Gas Supplier on the date which immediately precedes the start date of the Second Rollout Year.
For the purposes of Standard Condition 39A of electricity supply licences.	
NDMS ₂	means the total number of Designated Premises in respect of which the licensee is the Relevant Electricity Supplier on the date which immediately precedes the start date of the Second Rollout Year.

³⁰ [Under Standard Condition 39A \(electricity supply\)](#) “Designated Premises” means Non-Domestic Premises at which a metering point falls within profile class 1,2,23 or 4 as defined in the Balancing and Settlement Code on 30 November 2012

Calculation of annual installation requirements: methodology

138. The calculation of the minimum installation requirements is based on the following formula set out in gas and electricity supply licences:

$$N_y = \left(\frac{1}{a_y} RSMS_y \right) - T_y$$

Where:

***N_y** means the minimum installation requirement for the Rollout Year “y”*

***a_y** means a number used to calculate a proportion where “y” is equal to the number specified below:*

Rollout Year	Value of a _y
First Rollout Year	4
Second Rollout Year	3
Third Rollout Year	2
Fourth Rollout Year	1

***RSMS_y** means the number of Qualifying Relevant Premises at the beginning of the Rollout Year.*

***y** means each Rollout Year within the Framework.*

***T_y** means a number representing a tolerance allowance.*

For the purposes of Standard Condition 33A of gas supply licences and Standard Condition 39A of electricity supply licences, the value of T_y is to be calculated in accordance with the methodology specified in Tables 4 to 6 above.

139. Calculations of annual installation requirements for energy suppliers with a customer base made up of domestic only or non-domestic only customers will be based on the following variables:

- i. The number of premises that the energy supplier supplied on the day immediately preceding the Rollout Year and in which a smart metering system or Advanced Meter has yet to be installed.
- ii. The total number of premises supplied by the energy supplier on the last day immediately preceding the Rollout Year.
- iii. The tolerance percentage for that Rollout Year (as specified in Tables 5 and 6)

140. For energy suppliers with mixed customer bases (i.e. made up of both domestic and non-domestic consumers), the application of the tolerance levels will be relative to the relevant customer base (in terms of metering points), then added together (domestic tolerance plus non-domestic tolerance) to calculate the total installations allowance for the year.
141. This approach will not disadvantage mixed energy suppliers as they can still meet their obligations under the targets set in the licence conditions using any mixture of domestic and non-domestic installations. For mixed energy suppliers, the formula will take account of the different tolerance levels applied to each of the different rollouts. An illustrative example is included below using a hypothetical mixed energy supplier.

Illustrative example:

Mixed supplier A @beginning of Y1 (1 January 2022):

Smart penetration (total):60%

Domestic metering points (smart and non-smart): 900,000

Non-domestic metering points (smart and non-smart): 100,000

Smart meters (domestic and non-domestic)= 1,000,000*0.6= 600,000

QRP=1,000,000 *0.4=400,000

Domestic tolerance for Y1= 3.5%

Non-Domestic tolerance for Y1= 6.1%

Installation Requirements for Y1:

$N_1 = \frac{1}{4} \text{QRP} - T_y$

$N_1 = \frac{1}{4} 400,000 - [(900,000 * 0.035) + (100,000 * 0.061)]$

$N_1 = 100,000 - (31,500 + 6,100) = \underline{\underline{62,400}}$

142. As confirmed in our response to Question 5, the Government expects to consult in summer 2021 on proposals to adjust the calculation for installation requirement for Year 2 of the Framework in order to take account of smart churn in the previous year.
143. We are also considering an alternative approach where tolerance levels are not applicable in order to calculate annual installation requirements. For instance, for energy suppliers with smart meter coverage exceeding the targets during the first two Framework years, where the formula gives an annual minimum installation requirement equalling zero. Please refer to Question 3 of this document for further detail. A consultation on the proposals will be published in due course (see Part 1 Conclusion table).

Part 2 – Conclusion

DECISION 7: The Government confirms the value of the tolerance levels as follows:

Domestic Rollout: Year 1 = 3.5%; Year 2= 5.1%

Non-Domestic Rollout: Year 1= 6.1%; Year 2= 8.3%

DECISION 8: These values will be applied to the formulae set in tables 4 to 6 of this document to calculate the tolerance allowance (T_y) for Year 1 and Year 2 of the Framework years. This allowance will feed into the calculation of annual minimum installation requirements using the formula confirmed in the licence conditions 33A and 39A, as below:

$$N_y = \left(\frac{1}{a_y} RSM S_y \right) - T_y$$

DECISION 9: The Government has reconsidered its position in relation to customers gained on churn and the treatment of churn as part of the calculation of annual targets, acknowledging the challenge faced by those energy suppliers who are further advanced on their rollout. On this basis, the Government proposes to consult on an adjustment in the calculation of Year 2 targets to mitigate the effect of churn in smart meter customers. The adjustment will also need to continue to support the Government's overall aim of reaching market-wide rollout of smart meters as soon as possible.

Part 3 – Reporting Thresholds (Questions 8-9)

Question 8

Summary of responses to Question 8

Do you agree with the proposed changes to the reporting threshold for large energy suppliers? Please provide rationale for your answer.

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
11	2	0	0	2	6	21

144. Most of the respondents responding to this question agreed with the proposal to lower the reporting threshold from 250,000 to 150,000 customers. Two respondents disagreed and six did not provide an answer to this question.

145. Of those agreeing, several respondents further supported the proposal by saying that it would allow a more robust and accurate picture of future rollout plans and progress and would help to fill considerable gaps in reporting, enabling the development of evidence-backed policy. One respondent also noted that the improved ability to monitor suppliers' performance would provide additional evidence for the proposed mid-point review, which would be beneficial to the Framework's efficiency overall and to inform the decisions taken for Years 3 and 4.

146. Two respondents caveated their agreement suggesting that BEIS and Ofgem's reporting and monitoring regimes should be further aligned to reduce the reporting and monitoring burden. One respondent noted that it would be sensible for future funding and reporting thresholds to also align with other energy policy thresholds, using the Energy Company Obligation (ECO) as an example. Another respondent highlighted that with the lowering of the threshold, there should also be fair representation in the Smart Metering Delivery Group (SMDG) for small energy suppliers, including the provision of meeting documentation.

147. Two respondents (one of which noted disagreement with the proposal and the other agreement), outlined that all energy suppliers should report to BEIS/Ofgem regardless of their size. One of these respondents suggested that the new entrants to the market and those with less than 50,000 customers ought to be given an unspecified grace period whilst they develop robust systems, processes and arrangements to allow them to begin reporting at the required standard. However, on the same issue, other respondents argued that smaller energy suppliers may not have sufficient resources, due to their small sizes, to undertake the obligation and therefore the threshold should still be in place to avoid an unnecessary burden on small energy suppliers, both domestic and non-domestic.

148. A consumer group suggested that the threshold should continue to reduce over time, as it would provide a better view of the performance of energy suppliers and contribute to a more level-playing field.

Government response to Question 8

149. In the June 2020 Government Response, we stated that we would consider whether the large energy supplier reporting threshold of 250,000 domestic customers remained appropriate for the new Framework. On this basis, the November 2020 consultation proposed to reduce reporting thresholds for large energy suppliers to 150,000 gas and/or electricity customers in line with Ofgem's minded to proposal (now confirmed) to revise its own smart meter monitoring threshold for large energy suppliers to 150,000.³¹

150. In line with the views of a majority of respondents, we can confirm that reporting thresholds for large energy suppliers will be lowered from 250,000 to 150,000 gas and/or electricity customer accounts. Please note that for reporting purposes, thresholds will not differentiate between domestic and non-domestic designated premises. The threshold will only be applied to fuel types in line with licence conditions. Quarterly reporting for newly eligible suppliers will begin in 2022, with returns due in April 2022, for the first quarter of the year.

151. One respondent highlighted that newly reporting energy suppliers (as a result of the lowered threshold) should also gain access to SMDG, including the provision of meeting documentation. Following a consultation in October 2019, BEIS concluded that SMDG membership will be extended to the 13 large energy suppliers that submitted rollout plans to Ofgem in 2019. At this stage, we are not considering making further changes to the membership of this group. We reach out to a wide range of smaller energy suppliers directly and via the Independent Supplier Forum and through Energy UK.

152. On the issue of small energy suppliers and their reporting requirements, we will align with Ofgem's decision on reporting requirements, published in December 2020. Ofgem concluded that the reporting threshold would be set at 150,000 gas and/or electricity accounts to ensure proportionality. It is important to highlight, however, that these thresholds only refer to reporting requirements. Under the upcoming obligation commencing on 1 January 2022 all energy suppliers in the market will be subject to annual installation targets. This will also be the case for small energy suppliers and those energy suppliers currently in Control Market Entry (CME)³² and gas-only new entrants. Please refer to Ofgem's open letter dated 30 March 2021.³³

153. The thresholds for other energy supplier obligations, such as the Energy Company Obligation (ECO)³⁴ or Warm Home Discount (WHD),³⁵ are out of the scope of this consultation. They were referred to in our November 2020 consultation as illustrative

³¹ Ofgem, [Decision: Smart meter rollout supplier reporting requirements from 1 July 2021 onwards](#), December 2020.

³² Ofgem, [Entering the retail energy market: a guide](#), August 2016.

³³ Ofgem, [Smart Meter Rollout: Energy Suppliers' Rollout Delivery – Open Letter](#), March 2021.

³⁴ [Energy Company Obligation: ECO3, 2018 to 2022](#), July 2018.

³⁵ [Warm Home Discount Scheme 2018 to 2019](#), June 2018.

examples of other policy areas that had also reduced thresholds to create a more level playing field for energy suppliers.

Question 9

Summary of responses to Question 9

Do you agree that the legal drafting in Annex C implements the policy intention proposed in paragraphs 113 to 119 of this document? Please provide rationale for your answer.

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
9	0	0	0	1	11	21

154. A large number of respondents did not answer this question. This was in large part due to the respondents noting the question held little or no relevance to their organisation.

155. Of the remaining respondents, the clear majority responded positively noting agreement with the legal drafting proposed in Annex C of the November 2020 consultation document.

156. The one respondent that noted disagreement did so on the basis of a fundamental discord with the overall smart meter policy and target Framework and not specifically with the question asked.

157. A trade body representing non-domestic energy suppliers acknowledged that they had not reviewed the legal text and had not formed a view on whether the reporting threshold for domestic energy suppliers should be adjusted. However, they agreed that there should be a threshold applied to quarterly reporting requirements to avoid unnecessary regulatory burdens on small and non-domestic energy suppliers.

Government response to Question 9

158. In line with the views of the majority of respondents, we can confirm that the legal text (included in Annex D) will be laid in Parliament in July 2021.

Part 3- Conclusion

DECISION 10: The Government confirms that reporting thresholds for large energy suppliers will be lowered from 250,000 to 150,000 gas or electricity (or both) customers. This will align with Ofgem’s approach to energy supplier progress reporting under the new Framework and also with our decision to lower the threshold by which domestic energy suppliers fund Smart Energy GB’s capital costs.

DECISION 11: The Government will lay amending regulations in Parliament in July 2021 in line with the procedure under section 89 of the Energy Act 2008, including changes to licence conditions to implement this change (see Annex D).

Annexes

Annex A: List of Respondents

Annex B: Reaching Market-wide Rollout

Annex C: Analytical Evidence

Annex D: Amendments to Electricity Licence Condition SLC43 and Gas Licence Condition SLC37

ANNEX A: List of Respondents

Organisation Type	Organisations
Energy Supplier	TRU Energy Scottish Power Igloo Energy Utilita E.ON EDF SO Energy OVO British Gas/Centrica Shell Energy
Non-domestic Energy Supplier	Engie Drax (Haven & Opus) SSE Business
Trade Body	Energy UK The Industrial & Commercial Shippers & Suppliers (ICoSS) Solar Trade Association
Consumer Group	National Energy Action (NEA) Citizen's Advice
Meter Operator (MOP)	IMServ SMS
Other	Telefonica

ANNEX B: Reaching Market-Wide Rollout

1. The Government wants to ensure that all households and small businesses can benefit from smart metering. Reaching market-wide coverage of smart meters will involve even greater collaboration between government, industry and Smart Energy GB and their partner organisations over the next phase of the rollout, across at least four complementary and interdependent areas of activity to drive the normalisation of smart metering:
 - i. A continued focus, by the Government and industry, on **ensuring consumers are able to access the benefits and enjoy a positive experience** of smart metering, by delivering improved post-installation experience and operational fulfilment.
 - ii. **Smart Energy GB delivering in line with its updated objectives and governance arrangements** so that it meets the challenges posed in the remainder of the rollout, coordinating activity where relevant and effective.
 - iii. Industry developing and offering a greater array of **attractive and innovative new products and services** enabled by smart metering.
 - iv. The Government working with industry to build the conditions for, and deliver, a supportive and stronger **consumer policy environment** over time.
2. Progress has been made in all of these areas and further work is underway. However, more will need to be done to reach market-wide rollout by the end of the new Framework.

Access to benefits and a positive consumer experience

3. It is vital that energy suppliers continue to ensure that customers have positive experiences of smart metering and can access the associated benefits on an enduring basis. Improvements from energy suppliers in these areas are required to further drive uptake of smart metering, for example through increasing positive word-of-mouth from consumers, and delivering the right conditions for successful implementation of the new Framework.
4. To support industry to deliver these improvements, BEIS has launched a Post-Installation Consumer Experience project to develop and share good practice. The project is helping to identify and support resolution of issues that could negatively affect customers' experiences and will consider how consumers can be effectively engaged should such issues occur. We expect energy suppliers to fully utilise the outputs of this project to improve their customers' experiences of smart metering. Energy suppliers should also seek to ensure that customers who switch energy supplier or move into homes where smart meters are already installed are supported to fully engage with their smart meters to manage and reduce their energy usage.
5. As noted in Ofgem's Open Letter of March 2021, there remains significant scope for energy suppliers to improve their end-to-end installation and customer journeys and

maximise installation completion rates.³⁶ We expect energy suppliers to work to minimise installation failures and develop processes to ensure subsequent installation appointments are successful. Energy suppliers should engage with good practice that has been developed in conjunction with industry and shared by the Government on operational fulfilment to increase the volume of successful installations.

Coordinated consumer engagement activity

6. Coordinated consumer engagement activities will continue to be necessary to achieve a market-wide rollout and ensure that consumers are fully supported, particularly those who may experience barriers to engagement with smart metering. With the decision to introduce a new regulatory Framework, the Government confirmed that Smart Energy GB should continue as the organisation responsible for leading coordinated consumer engagement activities on behalf of energy suppliers.³⁷
7. To ensure that Smart Energy GB can continue supporting the next phase of the rollout effectively, the Government recently confirmed updates to Smart Energy GB's objectives and revisions to its governance framework. These changes will enable Smart Energy GB to shift its activities towards driving uptake and overcoming barriers to acceptance, whilst continuing to support consumers in changing their behaviours. Recognising that some audiences may require additional and more tailored support, Smart Energy GB will continue to be required to meet a specific objective to assist consumers in vulnerable circumstances to realise the benefits of smart metering.
8. Coordinated approaches to consumer engagement, involving collaboration between Government, industry, and Smart Energy GB, provide an opportunity to engage harder-to-reach audiences and consumers who may require additional support in accessing smart metering. We consider that Smart Energy GB is uniquely placed to support this coordination, where there are opportunities for efficiencies. In parallel, we have been working to facilitate a Local Consumer Engagement Pilot due to take place in Derby later in 2021, which will provide valuable insight into the effectiveness of a range of coordinated activities. The Government is keen to support Smart Energy GB in their leadership of new coordinated approaches, including embedding the learnings from the Local Consumer Engagement Pilot.
9. Smart Energy GB's responsibility was extended to microbusiness consumers in 2019. Smart Energy GB's approach includes working collaboratively with the energy industry and the targeting of microbusinesses owners with a focus on retail, hospitality and beauty, due to the high number of premise-based consumers and their energy-saving potential. They are also engaging with business intermediaries and influencers to reach and inform consumers. These activities are important for ensuring more microbusinesses become aware of smart metering and their benefits, thereby supporting energy supplier engagement and conversion.

³⁶ Ofgem, [Smart Meter Rollout: Energy Suppliers' Rollout Delivery – Open Letter](#), March 2021.

³⁷ [Smart meter coordinated consumer engagement](#), November 2020.

Attractive and innovative new products and services enabled by smart metering

10. The Government has sought to support innovation across industry by launching several innovation projects designed to encourage new approaches that aid market development and encourage consumer take-up. These include:

- i. A project to develop an open-source, smart-tariff comparison tool which, along with supporting research and development findings, is available to consumers and industry.^{38 39}
- ii. The Non-Domestic Smart Energy Management Innovation Competition (NDSEMIC) 2018-2020, which sought to maximise the potential for energy saving in the hospitality, retail, and school sectors. The competition developed and piloted seven energy management products and services that use smart meter data to help smaller organisations to better manage their energy consumption. The NDSEMIC evaluation was published in November 2020.⁴⁰ This showed that with the right features, timely insights and customer support, smart meter data innovations can engage smaller non-domestic consumers and help maximise the benefits of smart metering. We are now considering the implications of the findings for the Programme's benefits realisation strategy, including the role of engaging data provision in providing an incentive for non-domestic smart meter uptake.
- iii. The Smart Energy Savings (SENS) competition, which is developing and trialling innovative feedback products and services that use smart meter data to help domestic customers reduce their energy consumption through tailored and actionable feedback and advice.⁴¹

11. With innovation concepts proven and the rollout of smart meters by large energy suppliers in a mature state, we expect energy suppliers to develop and offer a greater array of attractive and inventive new products and services enabled by smart metering. This will help hone the attractiveness of the proposition of smart metering to energy consumers, enable important benefits and encourage greater uptake over the course of the Framework.

Delivering a supportive and stronger consumer policy environment

12. The Government has committed to deliver a supportive and stronger consumer policy environment.⁴² We have begun implementing the first part of this commitment through:

- i. Guidance to construction companies and builders, architects and other parties to support successful installation and operation of smart meters in domestic new builds, published November 2020.⁴³

³⁸ [Smart meter-enabled tariffs comparison project: Smart Tariffs-Smarter Comparisons](#)

³⁹ [Smart Tariff Comparison](#)

⁴⁰ [Non-Domestic Smart Energy Management Innovation Competition \(NDSEMIC\): evaluation findings](#), November 2020.

⁴¹ [Smart Energy Savings Competition](#)

⁴² [Delivering a smart system: government response to a consultation on smart meter policy framework post-2020](#), June 2020.

⁴³ [Smart meter installation in domestic new build premises](#), November 2020.

- ii. Targeted funds to decarbonise the public sector and promote smart metering. For example, smart metering and associated costs were included in both phases of the Public Sector Decarbonisation Scheme (PSDS) as an enabling technology. Under PSDS, £1 billion (Phase 1) and £75 million (Phase 2) of grant funds have been made available to support energy efficiency and heat decarbonisation. We are also working with stakeholders (e.g. Department for Education, Ministry of Housing, Communities & Local Government and local energy hubs) to promote and encourage public sector uptake.
 - iii. Confirmation in February 2021 that recipients of future Warm Home Discount Industry Initiatives will be provided with advice about the benefits of smart meters, as far as reasonably practicable, to help them have the confidence to accept the offer of smart meters and are able to get the most out of them once installed.⁴⁴
 - iv. Consultations on the role smart meters can play to support specific policies, for example in relation to energy efficiency in the domestic and non-domestic private rented sectors and among mortgage lenders.
13. We also continue to emphasise the key role of smart metering in supporting the UK's net zero commitment. For example, the Energy White Paper positioned smart metering as an essential infrastructure upgrade which will make the energy system more efficient and flexible, helping to deliver net zero emissions cost-effectively.
14. In addition to these actions by the Government, there are steps being taken by some energy suppliers that could be more widely adopted across industry to support a consistent message regarding smart metering being the default, desirable metering solution in Great Britain. In particular, energy suppliers could:
- i. **Consider making their cheapest tariff smart.** Beyond new and replacement situations, we consider that energy suppliers could further incentivise uptake if their most competitive tariffs are only available where a smart meter is installed or a customer agrees to have one installed within a specific time frame. Where energy suppliers are able to do so, it is appropriate that tariffs reflect the cost savings that smart meters offer energy suppliers and right that energy suppliers pass these savings onto their customers.
 - ii. **Ensure that pre-payment customers receive smart meters as soon as practicable.** Considering the substantial progress that has been made around technical eligibility for smart pre-payment meters, and recognising the significant benefits they offer to consumers, we expect energy suppliers to be taking steps to ensure that their pre-payment customers are able to receive smart meters as soon as practicable. This is even more relevant in light of COVID-19, which has highlighted the consumer benefits that smart meters bring to pre-payment customers. Smart meters enable these customers to track and top-up credit without leaving home. Energy suppliers can also offer timely support when they are alerted to smart pre-payment customers who have gone off-supply. We also note that Ofgem will require larger energy suppliers to report on their credit/pre-payment split in their reporting for the new Framework, which will improve transparency around

⁴⁴ [Warm Home Discount Scheme 2021 to 2022](#), February 2021.

progress in this area.

- iii. **Only offer smart meters as standard at the point of replacement.** Under the New and Replacement Obligation, energy suppliers are already obligated to install a smart meter when a traditional meter reaches the end of its life or is defective, unless there is good reason. The availability of traditional metering equipment is decreasing as the rollout progresses and smart metering is increasingly adopted as the default by equipment manufacturers. It is therefore not always possible for energy suppliers to provide traditional meters to customers who may request them.
- iv. **Levy cost-reflective meter exchange charges in particular circumstances.** Some energy suppliers have introduced a cost-reflective charge if a consumer refuses a smart meter where their meter requires replacing, or for the removal of a smart meter after installation. Evidence from energy suppliers indicates that these charges have been effective in increasing customer acceptance of smart meter installs in these scenarios. We consider that the imposition of a charge is reasonable in these circumstances and reflects the increasing costs energy suppliers face for providing non-standard (i.e. non-smart) metering services.

15. We recognise that there will be a small, but decreasing, number of situations where a customer's premises will not be technically eligible for a smart meter. Whilst the majority of technical barriers to installations have been resolved, we would expect energy suppliers to consider their Standards of Conduct licence conditions to treat customers fairly when implementing such approaches.⁴⁵ This should include ensuring that, where consumers are not technically eligible for a smart meter, they are still able to benefit from the best tariffs and are not subject to charges in meter replacement scenarios.

16. There are also further potential measures which we consider may be particularly relevant to encourage uptake in the non-domestic sector. Whilst further work is needed to better understand the impact of each measure, we would encourage energy suppliers to consider whether these measures could deliver additional uptake amongst their customer base. They include:

- i) Using the transition to market wide half-hourly settlement as a prompt to encourage installs.⁴⁶
- ii) Other pricing incentives, such as financial rewards or reimbursements for installation of smart metering.
- iii) Smart as a default requirement of contract onboarding or renewal.
- iv) Easing the installation process for SMEs, including testing assumptive or out of hours appointments, and messaging more tailored to SMEs, to help drive uptake.

17. Finally, the Government recognises more may need to be done to engage consumers to reach the very highest levels of coverage by the end of the Framework. We therefore have a programme of work underway to assess, develop and research a number of more direct, consumer-oriented policy measures in readiness for possible introduction later in the rollout.

⁴⁵ [Standard Licence Condition 0](#)

⁴⁶ In April 2021 Ofgem confirmed that market-wide half-hourly settlement, which is enabled by the granular consumption data recorded by smart and advanced meters, would be implemented by October 2025. See: [Half-hourly Settlement: Decision and Full Business Case - April 2021](#)

18. For these measures to be deployed effectively, the right conditions will need to be in place. For energy suppliers, this means delivering high levels of operational fulfilment and a consistently good customer experience. We will work with energy suppliers and other stakeholders to define these preconditions more precisely and continue to support energy suppliers to improve operational fulfilment and customer experience.

This publication is available from: www.gov.uk/government/consultations/smart-meter-policy-Framework-post-2020-minimum-annual-targets-and-reporting-thresholds-for-energy-suppliers

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