



Department for
Business, Energy
& Industrial Strategy

Smart Meter Targets Framework:

Government response to a consultation on a
churn adjustment



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Interpretation

1. In this document:

“the Government” refers to the UK Government;

“we” refers to the UK Government;

“BEIS” or “the Department” refer to the Department for Business, Energy and Industrial Strategy, that has published the consultation on behalf of the UK Government;

“the Programme” refers to the Smart Metering Implementation Programme, which includes the Department’s Smart Metering Team and the wider group of partners and stakeholders responsible for delivering the rollout;

“the all reasonable steps (ARS) obligation” refers to the legal obligation on energy suppliers to take “all reasonable steps” (ARS) to install smart meters. This obligation initially required installations to take place by the end of 2019 and, in 2013, it was extended to the end of 2020 (“the 2020 rollout duty”). In June 2020, due to the disruption caused by the COVID-19 pandemic, it was extended to 30 June 2021. In June 2021, it was extended by a further six months to 31 December 2021;

“the Targets Framework”, “the new Framework”, “the Framework” refer to the current smart meter installation obligation, which took effect from 1 January 2022 and is in place until 31 December 2025;

“customer-driven churn” refers to consumers switching between energy suppliers voluntarily, as a result of the consumer’s active choice.

Executive summary

2. 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. As at the end of 2021, 50% of all meters were smart or advanced meters, with 27.8 million smart and advanced meters in homes and small businesses across Great Britain.¹
3. The Government is committed to ensuring that 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.² In June 2021 the Government confirmed the tolerance levels for the first two years of the new Framework.³ The new Framework came into effect on 1 January 2022. Energy suppliers were required to publish their installation requirements for the first year of the Framework on their websites at the beginning of 2022.⁴
4. In response to industry feedback, in June 2021 the Government committed to consult on proposals for a modification in the calculation of installation requirements for Year 2 of the new Framework (2023) to mitigate the impact of smart meter customers switching their energy supplier ("churn") during Year 1. In committing to consult on proposals for a modification, the Government recognised the challenge that customer-driven smart churn may represent for energy suppliers that are more advanced in their rollout. Under the new Targets Framework, a supplier cannot meet their installation requirements by simply gaining smart meter customers. However, the current methodology for calculating minimum installation requirements, by not mitigating the impact of churn in smart meter customers, may potentially result in unfair penalisation of energy suppliers that are furthest ahead in their smart meter rollout, as they may be more likely to lose smart customers than gain them.
5. In November 2021, the Government consulted on an adjustment to mitigate the impact of customer-driven smart churn on energy suppliers' minimum installation requirements for the second year of the new Targets Framework. This consultation proposed to introduce a churn adjustment parameter into the formula used to calculate supplier targets. This parameter would apply a degree of mitigation for the impact of customer-driven smart churn in the calculation of energy suppliers' installation requirements. We proposed that this parameter be set at the highest level possible for the second year of the Framework (2023), representing the most complete mitigation of the impact of customer-driven smart

¹ [Smart meter statistics](#)

² [Delivering a smart system: government response to a consultation on smart meter policy framework post-2020](#)

³ [Smart meter policy framework post 2020: minimum annual targets and reporting thresholds for energy suppliers – government response](#)

⁴ [Supplier Smart Metering Installation Targets](#)

churn on supplier installation requirements. We noted that the Government would consider whether a level of churn adjustment is required in the third (2024) and fourth (2025) rollout years as part of the mid-point review of the Targets Framework due to take place in 2023. In consulting on the adjustment, we recognised that the impact of high wholesale gas prices was likely to result in low levels of customer-driven churn in the retail energy market in 2022.⁵ However, we considered that bringing forward a proposal for a customer-driven churn adjustment was justified on the basis of fulfilling our intention to prevent any potential penalisation of energy suppliers further ahead in their rollout and to maintain the focus of the Targets Framework on smart meter installations.

Government decisions

6. We received 14 responses to the November 2021 consultation by the deadline, with a large majority of responses coming from energy suppliers. We thank all respondents for their invaluable feedback and the supporting information they provided.
7. The decisions set out in this document reflect the responses received to the consultation, as well as the Government's intention that the Targets Framework is fair and proportionate across the market, whilst driving market-wide rollout of smart meters as soon as possible. The key decisions are as follows:
 - a. The formula used to set supplier minimum installation requirements in Year 2 of the Targets Framework (2023) will be modified to mitigate the impact of smart meter customers switching supplier. This adjustment will apply to Year 2 (2023) installation requirements only.
 - b. In response to feedback, the methodology to implement the churn adjustment will be amended from what was proposed in the consultation. The amended methodology will define supplier installation requirements for Year 2 of the Targets Framework as the minimum of: i) their targets with the churn adjustment applied; and ii) their targets without the churn adjustment applied.
 - c. The revised formula will include the full churn adjustment (equivalent to a churn adjustment parameter of 1).
 - d. The following formula will be used to implement the churn adjustment to supplier installation requirements in Year 2 of the Target Framework.

N2 = The minimum of:

$$\text{i) } \left(\frac{1}{3} (TMS_2 - (S_1 + NQ_1)) \right) - T_2; \text{ and}$$

⁵ Current levels of switching in the market are substantially below those seen in 2021. [Ofgem, Retail market indicators](#)

$$\text{ii) } \left(\frac{1}{3}RSMS_2\right) - T_2^6$$

- e. The Government will lay amending regulations in Parliament in Summer 2022 including changes to relevant licence conditions to implement the modification of the calculation used to set supplier installation requirements for Year 2 of the Targets Framework (see **Annex C**).

⁶ Definitions for the terms used in this formula are set out in Table 3 below.

Introduction

8. Smart meters are replacing traditional gas and electricity meters in Great Britain as part of an essential infrastructure upgrade to provide a more flexible and resilient energy system fit for the 21st century. Smart meters play a critical role in modernising the way we all use energy and are already aiding the transformation of the retail energy market to make it work better for consumers. The ability to record half-hourly consumption and price data from smart meters is unlocking new and innovative approaches to managing demand. Such approaches include optional smart ‘time-of-use tariffs’ that reward consumers for using energy away from peak demand times and allow new technologies such as electric vehicles and smart appliances to be cost-effectively integrated with renewable energy sources. This transformation to make the GB energy system smarter and more flexible will play a critical role in the cost-effective delivery of our commitments to net zero greenhouse gas emissions by 2050, which is fundamental to our energy security.
9. Therefore, it is a Government priority to deliver market-wide rollout of smart meters as soon as possible. The Government’s Net Zero Strategy, published in October 2021, outlined how smart meters are a critical enabler for delivery of a decarbonised power system by 2035 and set out our firm commitment to drive market-wide rollout.⁷ Thanks to the continued endeavours of industry, the rollout continues to make good progress. As at the end of 2021, 50% of all meters were smart or advanced meters, with 27.8 million smart and advanced meters in homes and small businesses across Great Britain.⁸
10. Government wants to ensure that households and smaller non-domestic sites can benefit from smart meters. In June 2020, the Government confirmed a new four-year policy Framework with fixed annual installation targets for energy suppliers, subject to tolerance levels, that will continue to drive the investment and momentum needed to achieve this goal.⁹ The new Framework applies to all domestic and non-domestic energy suppliers and took effect from 1 January 2022. This Targets Framework builds on the progress made under the previous “all reasonable steps” (ARS) obligation that was in place from 2012 to 2021. In June 2021, the Government confirmed the tolerance levels that apply for the first two years of the new Framework.¹⁰

⁷ [Net Zero Strategy: Build Back Greener](#)

⁸ [Smart meter statistics](#)

⁹ [Smart meter policy framework post 2020](#)

¹⁰ [Smart meter policy framework post 2020: minimum annual targets and reporting thresholds for energy suppliers](#)

Policy context

11. The Targets Framework ensures that energy suppliers' investment in individual smart meter installations are recognised each year. This represents a development from the "all reasonable steps" obligation, where annual milestones were set and assessed on levels of smart coverage and under which energy suppliers may be more adversely impacted by in-year churn.
12. It is the case, however, that customer-driven smart churn can have an impact on a supplier's installation requirements under the new Framework. Whilst under the new Framework an energy supplier can only meet their licence obligation by installing at least the minimum number of smart meters within a given rollout year, churn within the year is accounted for in the difference it makes to the supplier's year-end smart coverage. When calculating their Year 2 target, a supplier's net churn in smart and traditional meter customers at the end of Year 1 will be counted as part of their total metering points. Customer-driven churn may, therefore, alter the composition of a supplier's portfolio at the beginning of Year 2. A change to the proportion of smart customers in their portfolio as a result of churn will have an impact on the calculation of a supplier's minimum installation requirements for Year 2.
13. In November 2020, BEIS consulted on Minimum Annual Targets for the first two years of the new Targets Framework. In response to this consultation, some energy suppliers requested an adjustment to the calculation of supplier minimum installation requirements for Year 2 of the Framework to account for the impact of churn amongst customers with smart meters. One supplier provided evidence that demonstrated that, while they 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. This would result in these suppliers having a lower year-end smart penetration level than they would expect to have based on their smart meter installation numbers during the year and, consequently, higher minimum installation requirements in the following year than if they had not experienced this churn.
14. BEIS recognised the challenge that customer-driven smart churn may represent for energy suppliers that are more advanced in their rollout. While there remains a disparity between the smart penetration of energy suppliers furthest ahead in their rollout and the market average smart coverage, the current methodology may see those furthest ahead have higher installation requirements as a result of churn. Therefore, in our response to the November 2020 consultation, published in June 2021, we proposed to make an adjustment in the calculation of energy supplier minimum installation requirements in the second year of the Framework. We proposed that this adjustment would seek to mitigate the effect of customer-driven churn of smart meter customers between energy suppliers and focus installation requirements 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.

Consultation proposals

15. In November 2021, we consulted on an adjustment to mitigate the impact of customer-driven smart churn on energy suppliers' minimum installation requirements for the second year of the new Targets Framework (2023).
16. This consultation proposed a revision to the formula used to set minimum installation requirements. In order to implement an adjustment that would mitigate the impact of customer-driven smart churn, we proposed to introduce a churn adjustment parameter into the formula used to calculate targets referred to in paragraphs 33A.2 and 39A.2 of the Standard Licence Conditions for Gas and Electricity respectively. This churn adjustment parameter would determine the level of mitigation for the impact of customer-driven smart churn applied in the calculation of energy suppliers' installation requirements. We further proposed to set this parameter in a similar way to the tolerance value for each rollout year (Ty), in a document published and issued by the Secretary of State following consultation with all holders of Gas Supply and Electricity Supply Licences.
17. The consultation also sought views on our proposal for the level of the churn adjustment parameter in the second year of the new Framework. We proposed that this parameter be set at the highest level possible for the second year of the Framework, representing the most complete mitigation of the impact of customer-driven smart churn on supplier installation requirements. We noted that the Government would consider whether a level of churn adjustment is required in the third (2024) and fourth (2025) rollout years as part of the mid-point review of the Targets Framework, which will take place in 2023.

Consultation events

18. Following publication of the consultation in November 2021, BEIS conducted three stakeholder engagement events during December 2021. Stakeholders involved comprised energy suppliers, non-domestic energy suppliers, meter operators (MOPs) and an energy trade body. Additional engagement to address specific points of clarification on the consultation proposals was carried out in correspondence and in several bilateral stakeholder meetings held at the stakeholders' request.
19. The stakeholder engagement events and bilateral stakeholder meetings were organised to ensure attendees had the opportunity to understand the consultation proposals and their implications, and address points for clarification. A summary of post-publication engagement is given in Table 1 below.

Table 1: Post-publication engagement

Date	Organisation Type
02/12/2021	Meter Operators
07/12/2021	Non-domestic Energy Suppliers
09/12/2021	Energy suppliers: Smart Metering Delivery Group (SMDG)
13/12/2021	Energy supplier: So Energy
20/12/2021	Energy trade body: Energy UK
14/01/2021	Energy supplier: EDF Energy
18/01/21	Non-domestic energy supplier: SSE Business

Consultation responses

20. The closing date for the consultation was 20 January 2022. A total of 14 responses were received by the deadline. The majority of responses came from energy suppliers. These included domestic and mixed portfolio suppliers and non-domestic only suppliers. One response was received from a trade body and one from a meter asset provider (MAP). 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 and mixed portfolio)	8	57%
Non-domestic only energy supplier	4	29%
Trade body	1	7%
MOP/MAP	1	7%
TOTAL	14	100%

21. This document provides high-level summaries of the responses to each of the five consultation questions received from respondents. It sets out the Government’s response to each of the questions and confirms our intentions for the final design and implementation of the churn adjustment. Section One covers Questions 1-2 under ‘Adjustment to mitigate the impact of churn in Year 2’. Section Two covers Questions 3-4 under ‘Level of churn adjustment’. Section Three covers Question 5 under ‘Legal text’. There is an overall conclusion summarising the Government decisions at the end of each section.

Questions

QUESTIONS as consulted on in November 2021	
Q1	Do you agree that we should make an adjustment to mitigate the impact of customer-driven smart churn on an energy supplier's minimum installation requirements? Please provide rationale for your answer, supported with relevant evidence.
Q2	Do you agree that the proposed revised formula to calculate minimum installation requirements set out in paragraphs 25 to 27 implements the churn adjustment proposal described in this consultation? Please provide rationale for your answer, supported with relevant evidence.
Q3	Do you agree with our proposed approach to make the more complete churn adjustment in Year 2 of the new Framework (i.e. to set the churn adjustment parameter (β_2) at a value of 1)? If not, what level of adjustment do you think is appropriate? Please provide rationale for your answer, supported with evidence.
Q4	Do you agree with the assumptions made in Annex A: Analytical Evidence about levels of customer-driven smart churn during Year 1 of the new Framework and the impact of the churn adjustment in Year 2? Please provide rationale for your answer, supported with relevant evidence.
Q5	Do you agree that the legal drafting in Annex B implements the policy intention proposed in Section One and Section Two of this document? Please provide rationale for your answer.

Section One – Adjustment to mitigate the impact of churn in Year 2

Question 1

Summary of responses to Question 1

Do you agree that we should make an adjustment to mitigate the impact of customer-driven smart churn on an energy supplier’s minimum installation requirements? Please provide rationale for your answer, supported with relevant evidence.

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
6	2	1	1	3	1	14

22. A majority of respondents to this question either agreed, or agreed with caveats, that we should make an adjustment to mitigate the impact of customer-driven smart churn on minimum installation requirements. Those agreeing with caveats did so on the basis that they agreed with the principle of an adjustment but had concerns with specific aspects or consequences of the adjustment proposed. Three respondents disagreed with the proposal to make an adjustment to mitigate the impact of churn and one respondent disagreed with caveats on the basis that, although they supported the general intention of the consultation, their preferred option in relation to the specific proposals would be to make no adjustment.

23. Respondents agreeing with the proposals, and those agreeing with caveats, were supportive of the intention that the Targets Framework should focus on the installation of smart meters. Respondents supportive of the proposal noted that customer-driven smart churn may, under the current methodology, lead to higher installation requirements for suppliers that have rolled out smart meters quicker than the industry average, or those suppliers that install smart meters only to have those customers switch to another supplier. Two energy suppliers noted that they currently experience negative smart churn as a result of their smart levels being ahead of market average. Those respondents that agreed with this question felt that the adjustment proposed, by mitigating the potential for suppliers ahead of market average to be penalised due to customer-driven smart churn, would recognise installation performance more appropriately in Year 2 of the Framework than the current methodology.

24. Respondents that agreed with the proposals also noted that churn in smart meter customers can cause significant uncertainty, with market volatility seen in 2021 and

continuing making churn predictions more difficult. An adjustment to mitigate the impact of smart customers switching was considered welcome in this context.

25. Some respondents disagreed with the principle of making a churn adjustment. Those that did so considered that the existing formula for calculating supplier installation requirements is fair and appropriate and does not require adjustment. Several respondents noted that, while under the current formula suppliers with a smart penetration higher than market average are likely to lose more smart meters than they gain, this does not impact on their installation requirements. Rather, at present, supplier requirements are set according to the number of traditional meters within a supplier's portfolio. One respondent felt that, as such, the current formula appropriately reflects the scale of both the task and the opportunity for each supplier. This respondent noted further that, if any adjustment for churn were to be made, it would be more appropriate for this to relate to customer-driven churn in traditional meters, rather than smart ones.
26. One energy supplier argued that an adjustment to mitigate the impact of churn has become less necessary as market average smart penetration has arrived at 50%, thereby reducing the impact of churn on suppliers with high levels of smart penetration. Another respondent noted that, as more of the market becomes smart, the impact of customer-driven smart churn on energy suppliers will even out over time, as all suppliers will become more likely to gain smart customers.
27. Other respondents that disagreed with the proposals were supportive of a churn adjustment in principle but raised concerns about the potential unintended consequences of the proposed churn adjustment methodology. These concerns were shared by those respondents that agreed with caveats. As these concerns relate primarily to the proposed revised formula, they are covered under Question 2 below (paragraphs 51 - 53).

Supplier of last Resort (SoLR)

28. A number of respondents raised concerns about the approach to customers gained via the Supplier of Last Resort (SoLR) process, both under the proposed churn adjustment and the current methodology used to set supplier targets in the first rollout year (2022). Several respondents noted that market conditions since the second half of 2021 had significantly affected normal churn patterns, with most recent churn of customers happening as a result of SoLR events rather than customer choice. This has resulted in bigger changes to the portfolios of some suppliers via SoLR than would be expected due to business-as-usual churn, particularly where they have inherited large SoLR portfolios with below average smart penetrations. Some respondents stated that suppliers taking on such portfolios may be unable to meet their targets, even with best endeavours. One concern raised by several respondents was that significant gains in customers due to SoLR events taking place late in the year would make targets especially challenging in the subsequent year, as plans for that year's installation activity and capacity to deliver it would already be in place and allowed for in business plans. One respondent noted that current component shortages for smart metering related devices increased this risk. One

energy supplier suggested that the impact of gaining SoLR customers on installation requirements for the following year may have the unintended consequence of discouraging energy suppliers from participating in the SoLR process in future. One energy supplier argued that the current approach to the impact of SoLR events on supplier targets, namely that these customers are included within the gaining supplier's portfolio for the subsequent year, risks relying on Ofgem to take a view on the achievability of targets when making enforcement decisions at the end of the relevant year and that such a position potentially undermines the principles of the new Targets Framework.

29. Several respondents suggested that the principles of the churn adjustment should be applied to targets in Year 1 (2022) in order to mitigate the impact of customers gained through SoLR events. One energy supplier suggested that large gains of traditional meters be deferred for inclusion in a supplier's portfolio for twelve months, if these meters were gained through the SoLR process.

Other comments

30. One respondent suggested that the churn adjustment should only be applied to energy suppliers that comply with Electricity Supply Licence Condition 50.5, which is the obligation for energy suppliers to take all reasonable steps to enter into an agreement within 6 months of being contacted by a MAP after taking on a new customer through churn.
31. One respondent suggested that there should be a regular review cycle for the churn adjustment, taking into account market volatility and the scale of SoLR events occurring in the market.
32. One energy supplier queried whether the Government would consult on a retrospective churn adjustment for targets in Year 1 of the Framework. They noted that setting installation requirements in Year 1 (2022) based on a supplier's portfolio on 31 December 2021 could disadvantage suppliers that see their overall portfolio shrink during the course of the year, meaning they will be required to meet their installation requirements with a much smaller pool of traditional meter customers available to be converted to smart.
33. One energy supplier noted that, separately from the impact of churn, supplier installation requirements in Year 1 were being made more challenging by the parallel "all reasonable steps" requirement to replace unenrolled SMETS1 devices by the end of 2022. This supplier suggested that the date for replacement of unenrolled SMETS1 meters should be extended to align with the end of the current rollout Framework in 2025 to address this concern.

Government response to Question 1

34. The Government agrees with the majority of respondents that an adjustment to mitigate the impact of churn in smart meter customers is appropriate in Year 2 of the Framework

to ensure that suppliers that are further ahead in their smart rollout are not penalised as a result of being more likely to experience negative smart churn. Half of all meters in Great Britain are now smart or advanced meters.¹¹ There remains a disparity, however, between energy suppliers that are furthest ahead in their smart rollout and those that are at or below market average smart penetration. Suppliers that are furthest ahead are more likely to lose smart meter customers and gain traditional meter customers, with a net gain of traditional meter customers leading to higher installation requirements in the subsequent rollout year. An adjustment to mitigate the impact of losing smart meter customers through churn will offset the impact of gaining traditional meter customers at a higher rate and, as such, is an appropriate intervention to address the potential unfairness identified by respondents to the November 2020 consultation. **We can, therefore, confirm that we will modify the formula used to set supplier minimum installation requirements in Year 2 (2023) of the Targets Framework, to mitigate the impact of smart meter customers switching supplier.**

35. We agree with the feedback from some respondents to the consultation that, as the rollout progresses and market average smart penetration increases, the need for an adjustment to mitigate the impact of churn will diminish. **The churn adjustment set out in this document will apply for Year 2 (2023) of the Targets Framework only and should set no expectations about future arrangements for Years 3 (2024) and 4 (2025) of the Framework.** The decision to introduce an adjustment reflects the current progress of the smart meter rollout and the current differing levels of smart penetration between suppliers. As the rollout progresses under the Targets Framework, we expect that a higher proportion of customers will have smart meters and differences in smart penetration between suppliers will reduce. We will consider whether any churn adjustment is appropriate for Year 3 and Year 4 of the Framework, and, if so, what level of adjustment is required, as part of the mid-point review that will take place in 2023.
36. We note respondents' concerns about possible unintended consequences of the proposed methodology for the churn adjustment. **We will, therefore, make several amendments to the revised formula in order to address this feedback received.** These amendments are set out in the responses to Question 2 and Question 3 below.
37. The Government does not accept that the churn adjustment should be reviewed prior to the mid-point review. It is important that energy suppliers have certainty on their installation requirements at the start of each rollout year. This will not be achieved if alterations are made in-year to the churn adjustment that applies to supplier installation requirements.
38. Consulting on a retrospective churn adjustment for Year 1 (2022) targets, as suggested by one supplier, would also create uncertainty in relation to targets that have already been set. We do not consider this would be reasonable, given that suppliers have been delivering installations on the basis of their existing installation requirements since the

¹¹ [Smart meters in Great Britain, quarterly update December 2021](#)

start of 2022. The commitment made in June 2021 was to bring forward a churn adjustment for Year 2 (2023) only and we consider that remains appropriate.

39. We do not agree with a respondent's proposal that the churn adjustment should only apply to energy suppliers that are compliant with Electricity Supply Licence Condition 50.5. Decisions relating to supplier compliance with licence conditions rests with Ofgem. Electricity Supply Licence Condition 50.5 is unrelated to supplier obligations under the Targets Framework. It would not, therefore, be appropriate to make application of the churn adjustment contingent on supplier performance against this obligation.
40. The concern raised by one energy supplier relating to the requirement to replace unenrolled SMETS1 devices by the end of 2022 goes beyond the scope of the churn adjustment consultation and is therefore not responded to here. The SMETS1 enrolment project is operating at pace. We want all consumers to benefit from an interoperable smart meter market and the longstanding replacement "all reasonable steps" 'backstop' supports the achievement of this aim.¹²

Supplier of Last Resort (SoLR)

41. We are aware of the concerns of several respondents regarding the impact on their Year 1 (2022) minimum installation requirements of gaining SoLR customers in the latter part of 2021. We appreciate that those suppliers that have taken on a significant number of new customers through the SoLR process late in the year (2021) are likely to have seen an increase in their installation requirements in Year 1, and that this will have impacted on their plans for rollout delivery. However, we are not persuaded that recent SoLR events have made Year 1 minimum installation requirements unachievable for any supplier. This is based on the view that the Targets Framework is based on a snapshot of a supplier's portfolio on 31 December each year, with all suppliers then having 12 months to meet their targets. 12 months allows time for suppliers to plan, implement and, if necessary, adapt Year 1 installation plans.
42. While gaining a large number of customers through SoLR late in the year may require more adaptation than business-as-usual portfolio change, we consider that energy suppliers should take steps during the year to adapt their installation delivery plans to meet their requirements and that it remains fair and realistic to expect them to do so. Furthermore, traditional meter customers gained through SoLR represent an opportunity for the gaining supplier to install smart meters. Such customers may not have been targeted by their previous energy supplier and they may, therefore, be receptive to communication from their new supplier encouraging uptake of a smart meter. Customers that have recently been transferred via the SoLR process may additionally be receptive given the recent change in their energy supplier and subsequent communications from the new supplier as part of that process. We are aware of some reports from energy

¹² For further details on the approach to SMETS1 meters under the new Framework see [Smart meter policy framework post 2020: minimum annual targets and reporting thresholds for energy suppliers – government response](#).

suppliers that customers gained through SoLR may be more readily convertible to smart meters than existing customers.

43. We are also aware of suggestions from respondents that an adjustment similar to that proposed for customer-driven churn should be applied for SoLR customers, and that this should exclude or defer the inclusion of these customers in a supplier's overall portfolio for the purpose of calculating annual installation requirements. SoLR events affect suppliers differently and there are a range of factors that influence the extent to which taking on a failed supplier's portfolio impacts a gaining supplier's installation requirements and their ability to meet them. Such factors include: when in the year the failed supplier portfolio was gained, the smart penetration level of the failed supplier and that of the gaining supplier, and the gaining supplier's operational delivery model and capacity to adapt installation plans following a SoLR gain. The impacts of ongoing global supply chain challenges also affect energy suppliers in different ways, depending on factors such as meter manufacturers' contractual relationships with sourcing companies and existing levels of stock. While we note the challenge raised by one respondent that current supply chain issues mean that large gains of SoLR customers pose a particular challenge to the achievability of targets in Year 1, we are aware of mitigations by energy suppliers, for example where suppliers are increasingly diversifying their meter manufacturer supply chains.
44. In addition, despite the recent scale of supplier exits, SoLR events are not generally a frequent feature of the retail energy market. This is in contrast to customer-driven churn, which is a continual and ongoing feature of the retail energy market. We therefore consider it appropriate that these two features are dealt with separately. Ofgem's expectations for how a supplier should treat customers acquired via SoLR are set out in its licence conditions and guidance. We do not consider an exemption to this general approach needs to be made for the smart meter installation targets. The SoLR regime is managed wholly by Ofgem and energy suppliers' continued engagement and valuable contribution to this process is greatly appreciated.
45. **On this basis, we can confirm that we will maintain the current position in relation to customers gained through the Supplier of Last Resort process.** As such, customers gained through the SoLR process will continue to be counted within a suppliers' overall portfolio and their number of Qualifying Relevant Premises (RSMSy). Customers gained prior to the start of the new Framework (up to and including 31 December 2021) will remain included within these categories, affecting Year 1 minimum installation requirements.
46. This approach will be unaltered by the churn adjustment being implemented in Year 2. Traditional meter customers gained through the SoLR process in Year 1 of the new Framework will continue to be counted within a supplier's overall portfolio for the following year (Year 2). Smart meter customers gained through the SoLR process will similarly be counted within a supplier's overall portfolio for Year 2, and will not be affected by the adjustment for customer-driven churn. As such in the churn adjusted section of the formula, any smart metering points (Qualifying Metering Systems) that

were the responsibility of a failed supplier at the point they failed will be included within the relevant smart penetration total for the gaining supplier in the Year 2 target calculation.

47. As set out in their recent Open Letter to energy suppliers, Ofgem recognises that the retail energy market has been under significant pressure in the latter part of 2021, with a number of suppliers exiting the market and going through the SoLR process. They note that while this will be a challenge for some suppliers, it is a challenge that they expect them to actively work to meet.¹³ Where a supplier fails to achieve its installation requirements, in deciding whether to pursue action, Ofgem will have overall regard to their Enforcement Guidelines including the following factors:¹⁴

- The point at which the supplier became aware that it was tracking behind in terms of meeting one or both of its targets;
- What actions the supplier took to try to mitigate the impact of the issues the supplier was experiencing; and
- The extent to which the issue was within the supplier's control.

¹³ [Open Letter on Smart Meter Rollout Delivery and Regulatory Obligations 2022](#)

¹⁴ [Ofgem, The Enforcement Guidelines](#)

Question 2

Summary of responses to Question 2

Do you agree with the proposed revised formula to calculate minimum installation requirements set out in paragraphs 25 to 27 implements the churn adjustment proposal described in this consultation? Please provide rationale for your answer, supported with relevant evidence.

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
5	3	1	1	3	1	14

48. A majority of respondents to this question either agreed, or agreed with caveats, that the revised formula for calculating minimum installation requirements, as set out in paragraphs 25 to 27 of the consultation document, implements the churn adjustment proposed in the consultation. Those agreeing with caveats agreed that the formula for the minimum installation requirements adjusted for churn as intended but had concerns relating to the other aspects of the churn adjustment as proposed. Three respondents disagreed with the proposed calculation, and one disagreed with caveats on the basis that the formula proposed would have unintended consequences for the smart meter rollout.

49. One respondent that agreed with caveats, agreed that the calculation adjusts for churn as proposed but believed the adjustment was not necessary.

50. One respondent, although they disagreed with the proposed formula, noted that when a supplier loses smart meter customers their targets should be reduced, in line with the churn adjustment proposal.

Unintended consequences

51. Some respondents that disagreed, or disagreed with caveats, did so on the basis that the proposed formula may lead to the adjustment having unintended consequences for both suppliers and customers. Respondents noted that the proposed revised formula, while mitigating the impact of a supplier losing smart customers through churn, had the unintended consequence of effectively treating smart meter customers gained through churn as traditional for the purpose of setting installation requirements. Energy suppliers that raised this argued that the proposed adjustment would disproportionately inflate the targets of suppliers experiencing positive smart churn (gaining more smart meter customers than they lose). Such suppliers would see higher targets but would not see an equivalent increase in their opportunity for installations, as the actual levels of smart in

their portfolio would have increased. Conversely, those suppliers that experience negative smart churn would be given lower targets in the following year. One energy supplier noted that a supplier growing their portfolio could be given Year 2 targets that are practically impossible to achieve, or even that are higher than the number of traditional meters in their portfolio. This respondent stated that the proposed revised formula would be inappropriate, as it would use a backward-looking assessment (i.e. the number of smart meters supplied and the number of smart meters installed previously) to set a forward-looking target (i.e. how many meters a supplier must install in Year 2). One respondent noted that the formula was premised on customer churn following historic trends and did not take account of the potential impact were any large suppliers to gain large numbers of smart meters.

52. Several respondents raised concerns that the proposed methodology, by treating smart customers gained on churn as traditional for the purposes of setting targets, could result in suppliers being disincentivised from gaining smart meter customers through customer-driven switching. Further, suppliers may be disincentivised from retaining smart customers within their portfolio. This, these respondents argued, may result in a perverse incentive for suppliers to offer worse deals to smart customers. This may result in lower market engagement for smart customers and a poorer customer journey compared to those with traditional meters. This could in turn have a negative impact on customer demand and market competition and, therefore, on the smart rollout. One respondent noted that the Government should not introduce measures that create barriers to customer churn, as such churn is a feature of a healthy energy market. Another respondent felt that a formula that dissuades suppliers from attracting and retaining smart customers could impact the broader Government objective for the energy market to engage customers on their journey to net zero, noting that smart metering is required for further market developments such as Market Wide Half Hourly Settlement and time of use tariffs.

53. Several respondents felt that the proposed formula, by reducing the targets for some energy suppliers and increasing them for others, would create 'winners' and 'losers' and encourage suppliers to seek to gain a competitive advantage by promoting a churn parameter value that will increase others' targets. Some respondents also argued that the proposed formula would reduce the transparency of the way in which annual installation requirements are set, by introducing a churn parameter that would be arbitrary. One respondent noted that that this would create uncertainty surrounding future targets and another stated that it would be disruptive to introduce an adjustment to the target calculation after the first compliance year for the new Framework had started.

Supplier of Last Resort (SoLR)

54. As with Question 1, respondents that agreed with caveats or disagreed with caveats raised concerns about the impacts of customers gained via the Supplier of Last Resort (SoLR) process. One supplier suggested that the recent impacts of SoLR on those suppliers gaining customers should be addressed through an adjustment to Year 1 installation requirements. Another respondent suggested a cut-off date should be agreed

after which any customers gained do not impact the supplier's targets for the next rollout year. This was justified on the basis that gaining SoLR customers late in the year presents an additional challenge for a supplier, as they are required to re-baseline their campaigning and installer workforce requirements for the following year at short notice. This process is time and resource intensive and may increase the risk of that supplier not meeting their minimum installation targets.

Other comments

55. One respondent agreed that the proposed formula achieved the churn adjustment proposed in the consultation but suggested there should be an additional multiplier that disables the churn adjustment for suppliers who do not comply with Electricity Supply Licence Condition 50.5.

56. One respondent noted that the consultation does not comment on whether the formula proposed is designed to account for churn in Advanced Meters (AMRs). They argued that AMRs remain a common type of meter in the non-domestic market and believe they should be treated the same way as SMETS meters.

Government response to Question 2

57. We note the concerns raised by respondents to this question and to Question 1 about the unintended consequences of the proposed methodology for implementing the churn adjustment. The revised formula proposed in the consultation would have the intended effect of mitigating the impact of a supplier experiencing negative smart churn. However, it would also result in suppliers experiencing positive smart churn having higher installation requirements in Year 2 than they would have expected under the formula currently in licence conditions. It would be contrary to the intentions of the churn adjustment for any suppliers' installation requirements to be inflated disproportionately or to be made technically or practically unachievable.

58. We do not accept that the churn adjustment consulted on would necessarily disincentivise suppliers from seeking to gain smart customers. There remain wider commercial incentives and benefits to suppliers from serving customers with smart meters.¹⁵ Nevertheless, we accept that increasing supplier targets as a result of a net gain in smart meter customers may create a risk of a perverse incentive for suppliers to seek to avoid gaining customers that already have a smart meter. We agree that such an outcome should be avoided in the interests of consumers and of the smart meter rollout.

59. **On this basis, we will revise the formula used to implement the churn adjustment in the calculation of supplier installation requirements.** This amendment will define supplier installation requirements for Year 2 of the Targets Framework as the minimum of:

- i) their targets with the churn adjustment applied; and

¹⁵ [Smart Meter Roll-Out: Cost-Benefit Analysis \(2019\)](#)

ii) their targets without the churn adjustment applied.

60. This amendment will ensure that the churn adjustment does not increase supplier installation requirements above what would be expected under the formula currently included in licence conditions (i.e. the formula without the churn adjustment applied). This will mitigate the risk that any supplier is given disproportionately inflated targets as a result of the churn adjustment, and will reduce any perverse incentive for suppliers to avoid gaining smart meter customers. At the same time, the adjustment will continue to mitigate the impact of customers switching supplier for those suppliers that experience negative smart churn. This will ensure that the adjustment meets the intention of preventing any potentially unfair impacts on suppliers ahead of market average smart penetration as a result of customer-driven smart churn.

61. Advanced Meters (AMRs) are Qualifying Metering Systems under licence conditions 33A and 39A of the Gas and Electricity Supply Licence Conditions respectively. Advanced Meters are, therefore, included within the revised formula that will implement the churn adjustment (see Table 3 below). As such, the adjustment will mitigate the impact of churn in AMRs on supplier installation requirements.

62. As set out in paragraph 39 above, we do not agree with a respondent's suggestion that application of the churn adjustment should be linked to compliance with Electricity Supply Licence Condition 50.5. As such, the churn adjustment will apply to all energy suppliers.

63. Our response to concerns raised about the impact on minimum installation requirements of gaining customers through the SoLR process is set out in paragraphs 41– 47 above.

Section One – Conclusion

DECISION 1: The Government confirms that the formula used to set supplier minimum installation requirements will be modified to mitigate the impact of smart meter customers switching supplier on smart meter installation requirements in Year 2 of the Targets Framework (2023). This adjustment will apply to Year 2 installation requirements only. The Government will consider whether a churn adjustment is required in the third and fourth years of the Target Framework as part of the mid-point review of the Framework that will take place in 2023.

DECISION 2: The Government is not persuaded that a modification to the design of the Targets Framework to adjust for traditional meter customers gained through the Supplier of Last Resort (SoLR) process is required. On this basis, customers gained through the SoLR process will continue to be counted within a suppliers' overall portfolio. Customers gained prior to the start of the new Framework (up to and including 31 December 2021) will affect Year 1 minimum installation requirements.

DECISION 3: The Government has reconsidered the methodology to be used to implement the churn adjustment, to address potential unintended consequences identified in response to the consultation. The revised methodology for the churn adjustment will define supplier installation requirements for Year 2 of the Targets Framework as the minimum of: i) their targets with the churn adjustment applied; and ii) their targets without the churn adjustment applied. This will help meet the intention of the adjustment, while mitigating the risk that any supplier is given disproportionately high installation requirements or is disincentivised from gaining customers that already have smart meters.

Section Two – Level of churn adjustment

Question 3

Summary of responses to Question 3

Do you agree with our proposed approach to make the more complete churn adjustment in Year 2 of the new Framework (i.e. to set the churn adjustment parameter (β_2) at a value of 1)? If not, what level of adjustment do you think is appropriate? Please provide rationale for your answer, supported with evidence.

Agree	Agree with Caveats	Neutral	Disagree	Disagree with Caveats	No Response	TOTAL
4	4	1	4	0	1	14

64. The majority of respondents answering this question agreed with the proposed approach to make the more complete churn adjustment in Year 2 of the new Framework (setting the churn adjustment parameter (β_2) at a value of 1) or agreed with caveats. Four respondents disagreed with this approach. One respondent gave a neutral response and a further respondent did not answer this question.

65. As with Questions 1 and 2, those respondents that agreed with caveats raised concerns regarding potential unintended consequences of the adjustment as consulted on. Some respondents noted that the proposal may draw suppliers away from offering attractive offers for smart customers, and that this may potentially reduce the uptake rates of smart meters. One respondent caveated their agreement with the need to undertake regular reviews of the churn adjustment parameter via consultation with industry, to ensure suppliers are given enough notice and time to effectively plan their activities to take the effects of the parameter into account. One non-domestic energy supplier noted the differences between the domestic and non-domestic markets. They stated in particular that the non-domestic market is less advanced in its smart rollout, with suppliers at varying levels of maturity in their own rollouts and that smart churn may, therefore, have an impact for longer in the non-domestic market than the domestic one. This supplier argued that the Government should be mindful of these differences and should consider introducing separate domestic and non-domestic churn adjustment parameters if necessary in future rollout years. This respondent also highlighted the possibility of current and future developments impacting on rollout progress, such as the COVID-19 pandemic and recent developments in the retail energy market, and suggested that provision be made for review of the churn adjustment parameter if market circumstances change significantly.

66. Four respondents disagreed with the proposal to make the more complete churn adjustment. Several did so on the basis that they did not agree that there should be any adjustment for churn, as set out in their responses to Questions 1 and 2. One respondent stated that there was insufficient evidence on which to base the proposed adjustment and that the proposed regulatory approach would therefore be arbitrary and not robust.
67. Two respondents suggested alternative levels of adjustment. One energy supplier suggested that the impact of churn could be resolved by adjusting the parameter so that all suppliers have a similar or better proportion of minimum installation requirement to traditional meters in their portfolio than those more advanced in their rollout, but noted that this was likely to result in a churn adjustment parameter of close to 0. Another respondent who disagreed with the proposal said that to provide a fairer allocation of installation requirements amongst suppliers, the parameter should be set at either 0.5 or 0.
68. The respondent that gave a neutral response to this question noted the difficulty in determining the appropriate level of the parameter due to the current uncertainties in the market. This respondent suggested that the parameter should be regularly reviewed, with reviews taking place more than once a year.

Government response to Question 3

69. We have considered the responses received in relation to the level of churn adjustment that should be applied. Overall, respondents that were supportive of a churn adjustment agreed that the full adjustment should be made in order to fulfil the intention of not penalising suppliers further ahead in their smart rollout as a result of smart customer switching. Those that disagreed with a full adjustment largely raised concerns related to possible unintended consequences of the methodology proposed to implement the adjustment, as outlined in the responses to Questions 1 and 2 above. Only one respondent stated that the partial adjustment, setting the churn adjustment parameter (β_y) at 0.5, was a viable alternative.
70. **On this basis we can confirm that the more complete churn adjustment will be applied to the calculation used to set supplier installation requirements.** As set out in paragraphs 57 – 60, to avoid possible unintended consequences the methodology used to implement this adjustment will be revised, so that a supplier's minimum installation requirement in Year 2 will be based on the minimum of this fully churn adjusted requirement and the unadjusted requirement.
71. In light of the decision to make the more complete churn adjustment, we consider that it is no longer necessary to include the churn adjustment parameter in the formula used to set supplier installation requirements in Year 2 (2023) of the Framework. Including the churn adjustment parameter when it is not required to implement the adjustment would make the formula used to set minimum installation requirements unnecessarily complex. Some respondents to the consultation raised concerns that including a churn adjustment parameter, which would be set in a document separate to licence conditions, may reduce

the transparency of the calculation used to set supplier targets. Removing the churn adjustment parameter from the revised formula will avoid generating unnecessary uncertainty in relation to future installation requirements and will serve to maintain the transparency of the target calculation.

72. We can therefore confirm that the Government will replace the formula in paragraphs 33A.5 and 39A.5 of the Gas and Electricity Supply Licences respectively with the following for the second rollout Year (2023):

N2 = The minimum of:

i) $\left(\frac{1}{3}(TMS_2 - (S_1 + NQ_1))\right) - T_2$; and

ii) $\left(\frac{1}{3}RSM S_2\right) - T_2$.

Definitions of the terms used in this formula are set out below.

Table 3: Definition of terms in the formula used to define an energy supplier’s minimum installation requirements in the Second Rollout Year (2023)

Term	Definition
N2	means the minimum installation requirement for the Second Rollout Year (2023)
RSMS2	means the number of Qualifying Relevant Premises ¹⁶ at the beginning of the Second Rollout Year (2023)
T2	means a number representing a tolerance level for the Second Rollout Year (2023), which has the value that is determined, or calculated in accordance with a methodology specified in a document published and issued by the Secretary of State for the purposes of Conditions 33A and 39A, following a consultation with all holders of Gas and Electricity Supply Licences. ¹⁷
TMS2	means the total number of premises (domestic and designated) (smart and non-smart) supplied by a supplier at the start of the Second Rollout Year (2023)
S1	means the total number of premises (domestic and designated) with a Qualifying Metering System (i.e. Smart Meter or Advanced Meter) that are the responsibility of the supplier at the start of the First Rollout Year (2022)
NQ1	means the total number of Qualifying Relevant Premises at which a supplier has installed a Qualifying Metering System (i.e. Smart Meter or Advanced Meter) from the start of the First Rollout Year (2022) up to the date which immediately precedes the start of the Second Rollout Year (2023).

¹⁶ Qualifying Relevant Premises are defined as Domestic Premises or Designated Premises in respect of which the licensee is the Relevant Gas or Electricity Supplier and at which there is installed neither: (a) a Smart Metering System; nor (b) an Advanced Meter installed in accordance with the requirements of standard condition 39 (Smart Metering System – Roll-out, Installation and Maintenance), [Energy supply licence conditions](#).

¹⁷ This document was published in June 2021, [Smart meter policy framework post 2020: minimum annual targets and reporting thresholds for energy suppliers – government response](#)

73. We note the challenge from some respondents that decisions on the level of churn adjustment must be based in evidence. The churn adjustment being applied to Year 2 installation requirements has been developed with consideration of the current progress of the smart meter rollout, the differing levels of smart penetration between suppliers and an analytical assessment of the impact of the adjustment (see **Annex B**). The final approach confirmed here reflects feedback and evidence presented in response to the recent consultation. When considering whether an adjustment is required beyond Year 2 and, if so, what level of adjustment is appropriate, we will take into account the latest evidence on progress of the rollout. This will include the proportion of customers that have smart meters and the range of smart penetration levels among suppliers, as well as market circumstances, including levels of customer switching, and the potential impact that any adjustment will have on individual suppliers and on the Government aim to drive market-wide rollout. Any future churn adjustment will only be set following a consultation in which we will set out the rationale and evidence used to support the proposals.
74. We also note the suggestion from one respondent that consideration be given to the particular circumstances of the domestic and non-domestic markets when determining what level of churn adjustment, if any, is required in future rollout years. The decision to include the more complete churn adjustment to Year 2 installation requirements reflects the current progress of the rollout in the domestic and non-domestic markets. We agree that the circumstances in the non-domestic market and latest evidence on progress in the non-domestic rollout should form part of the evidence used to develop proposals in relation to churn in the latter half of the rollout (2024 and 2025). We can confirm that the non-domestic market will be considered in this context.

Question 4

Summary of responses to Question 4

Do you agree with the assumptions made in Annex A: Analytical Evidence about levels of customer-driven smart churn during Year 1 of the new Framework and the impact of the churn adjustment in Year 2? Please provide rationale for your answer, supported with relevant evidence.

Agree	Agree with Caveats	Neutral	Disagree with Caveats	Disagree	No Response	TOTAL
1	1	1	4	3	4	14

75. A majority of respondents to this question disagreed or disagreed with caveats with the assumptions about levels of customer-driven smart churn during Year 1 of the new Framework and the impact of the churn adjustment.¹⁸ A number of respondents answering this question did so with reference to their answers to previous questions, including by repeating concerns raised about the impact of the proposed churn adjustment. Over a third of respondents gave no response or a neutral response to this question.

76. The two respondents that agreed or agreed with caveats with the assumptions did so on the basis that these matched historic trends for customer switching or were appropriate for patterns of churn in a business-as-usual market.

77. Several respondents that disagreed with the assumptions, and the one respondent that agreed with caveats, did so on the basis that market conditions have significantly altered patterns of churn and that continuing volatility makes it difficult to predict future levels of customer switching. Two respondents noted that the assumptions do not take account of the impact of Supplier of Last Resort (SoLR) events on supplier installation requirements. One energy supplier noted it was their experience that smart meter customers are more likely to switch suppliers and that this pattern was not reflected in BEIS' assumptions.

78. One energy supplier used their response to this question to give feedback on the impact of SoLR events in the latter part of 2021 on supplier installation requirements. This feedback is covered in paragraphs 28 - 29 above.

79. Several respondents raised concerns that the proposed churn adjustment would alter energy supplier customer acquisition strategies. They argued that this would lead to a

¹⁸[Annex A: Analytical Annex, Smart Meter Targets Framework: churn adjustment.](#)

change in patterns of customer switching and that this was not reflected in the analytical assumptions in Annex A. This was raised particularly by respondents that had disagreed with the proposed churn adjustment on the basis that it may disincentivise energy suppliers from seeking to gain smart customers (see Question 1 above). One energy supplier stated that there was evidence of smaller suppliers using customer acquisition, rather than installations, to drive up their smart coverage under the 'all reasonable steps' obligation. This supplier noted that similar behaviour may occur under the proposed formula in the new Framework, as suppliers may make acquisition decisions that support their ability to deliver their obligations under the new regime.

80. One non-domestic energy supplier noted that the illustrative figures used for non-domestic churn (suppliers with below average smart penetration were assumed to have a net gain of 25,000 meters over Year 1, and suppliers with above average smart penetration were assumed to have a net loss of 25,000 meters) did not reflect their own data. This supplier noted that it was likely that churn rates vary significantly between non-domestic suppliers. This respondent also noted a number of challenges in rolling out smart meters in the non-domestic market and raised concerns that the non-domestic tolerance levels for Year 1 and Year 2 of the Framework may not be enough to mitigate the impact of some of the issues experienced by non-domestic energy suppliers.

Government response to Question 4

81. Continuing high prices in the wholesale gas market and the existence of the price cap in the domestic market are limiting the amount of customer switching that is taking place in the current retail energy market. We note suppliers' concerns that, while the analytical assumptions set out in Annex A reflect historic patterns of churn in a business-as-usual market, they do not account for recent market circumstances and altered patterns of switching. The Impact Assessment published alongside this response document sets out an assessment of the impact of the churn adjustment that uses revised estimates of the levels of customer-driven churn likely to be seen in the domestic and non-domestic markets in Year 1 of the Framework (2022). This reflects up to date evidence on current levels of customer switching. A sensitivity analysis has also been conducted to take account of ongoing volatility and uncertainty in the retail energy market. For further details please refer to **Annex B: Impact Assessment**.

82. We note the concerns of some respondents that the methodology proposed in the consultation could alter energy supplier's customer acquisition strategies, and this may drive change in patterns of customer switching. As set out in response to Question 2 above, we have amended the methodology that will implement the churn adjustment in response to feedback from respondents to the consultation. We do not expect that this revised methodology will materially alter patterns of churn.

83. The concerns raised by one non-domestic supplier relating to the tolerance levels for Year 1 and Year 2 of the Framework go beyond the scope of the churn adjustment consultation and are therefore not responded to here. In response to industry feedback, the Government confirmed in June 2021 that separate domestic and non-domestic

tolerance levels would be used to set supplier installation requirements in Year 1 and Year 2 of the Targets Framework. The non-domestic tolerance level was calculated to reflect the unique circumstances of the non-domestic market, using data on consumer attitudes, the consumer journey and installation rates specific to the non-domestic sector. This has ensured that the installation requirements on non-domestic energy suppliers are tailored to their operational context.¹⁹

84. The Government response to concerns raised by respondents on the impact of gaining customers through the SoLR process on installation requirements is set out in paragraphs 41 - 47 above.

¹⁹ For further explanation of the non-domestic tolerance levels please refer to [Smart meter policy framework post 2020: minimum annual targets and reporting thresholds for energy suppliers – government response and Annex C: Analytical evidence.](#)

Section Two - Conclusion

DECISION 4: The Government confirms that the revised formula for setting supplier installation requirements will include the more complete churn adjustment (equivalent to a churn adjustment parameter of 1) to mitigate the impact of customer switching for energy suppliers experiencing negative smart churn. Given the decision to make a full adjustment, the churn adjustment parameter is no longer required and would add unnecessary complexity to the target setting formula. If, following conclusion of the mid-point review and consultation, any churn adjustment is to be applied in later rollout years, the Government will seek to further amend licence conditions.

DECISION 5: The churn adjustment methodology will be implemented through the following formula used to set supplier installation requirements in Year 2 (2023) of the Framework. This formula will be introduced to licence conditions 33A and 39A of the Gas and Electricity Supply Acts respectively.

N_2 = The minimum of:

i) $\left(\frac{1}{3}(TMS_2 - (S_1 + NQ_1))\right) - T_2$; **and**

ii) $\left(\frac{1}{3}RSMS_2\right) - T_2$

Section Three – Legal Text

Question 5

Summary of responses to Question 5

Do you agree that the legal drafting in Annex B implements the policy intention proposed in Section One and Section Two of this document? Please provide rationale for your answer.

Agree	Agree with Caveats	Neutral	Disagree	Disagree with Caveats	No Response	TOTAL
7	0	1	0	0	6	14

86. A large number of respondents either did not respond to this question or provided no comments in support or disagreement with the question asked.

87. Of the remaining respondents, all agreed that the legal drafting in Annex B of the consultation document implements the policy intention proposed in Section One and Two of the consultation document.

Government response to Question 5

88. We have considered all responses received in finalising legal drafting that introduces the modification to the calculation used to set supplier installation requirements in Year 2 (2023) of the Targets Framework. This will be laid in Parliament and is published alongside this Government response document in **Annex C**.

89. As discussed in response to Question 2, we have amended the revised formula for implementing the churn adjustment in response to feedback to the consultation. We have in turn amended the legal text as consulted on to incorporate the amended formula.

90. As this adjustment is intended to address customer-driven smart churn, an exemption has been included in the legal text in relation to smart customers transferred as a result supplier-led transfer from one Electricity or Gas Supply licensee to an Affiliate Electricity of Gas Supply licensee.

Section Three - Conclusion

DECISION 6: The Government will lay licence modifications in Parliament in Summer 2022 in line with the procedure under Section 89 of the Energy Act 2008, including changes to licence conditions to implement the modification of the calculation used to set supplier installation requirements for Year 2 of the Targets Framework to mitigate the impact of customer-driven smart churn. (see Annex C).

Annexes

Annex A: List of Respondents

Annex B: Impact Assessment

Annex C: Amendments to Electricity Supply Standard Licence Condition 39A and Gas Supply Standard Licence Condition 33A

Annex A: List of Respondents

Organisation Type	Organisations
Energy Supplier	Bulb Centrica EDF Energy E.ON Octopus Energy Scottish Power So Energy Utilita
Non-domestic Energy Supplier	Corona Energy Engie Drax Energy Solutions/Opus Energy SSE Business
Trade Body	Energy UK
Meter Asset Provider	Northern Powergrid Metering

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