

Smart meter policy framework post-2020

Lead department	Department for Business, Energy and Industrial Strategy
Summary of proposal	To extend existing arrangements for six months (to end 2021) and establish a smart meter rollout framework for the period 1 January 2022 to 31 December 2025. Targets and tolerance values for energy suppliers will be set for the first two years; a review in 2023 will set values for the final two years.
Submission type	Impact assessment (IA) – 20 May 2021
Legislation type	Secondary legislation
Implementation date	1 July 2021 (extension) and 1 January 2022
Policy stage	Final
RPC reference	RPC-BEIS-5035(2)
Opinion type	Formal
Date of issue	3 June 2021

RPC opinion

Rating¹	RPC opinion
Fit for purpose	The RPC considers the EANDCB and SaMBA to be sufficient after the Department's response to our initial review.

Business impact target assessment

	Department assessment	RPC validated
Classification	Qualifying provision	Qualifying provision
Equivalent annual net direct cost to business (EANDCB)	£11.0 million (pre-RPC scrutiny estimate) £48.8 million (final IA estimate)	£48.8 million (2019 prices, 2020 pv)
Business impact target (BIT) score	£244.0 million	£244.0 million
Business net present value	£309.5 million	
Overall net present value	£1,193.0 million	

¹ The RPC opinion rating is based only on the robustness of the EANDCB and quality of the SaMBA, as set out in the [Better Regulation Framework](#). RPC ratings are fit for purpose or not fit for purpose.

RPC summary

Category	Quality	RPC comments
EANDCB	Green	Following engagement with the RPC, the Department has re-classified some benefits to energy suppliers as indirect and provided more information to support its treatment of other benefits as direct.
Small and micro business assessment (SaMBA)	Green	The IA now includes information on the number of small and micro businesses affected. It provides reasonable evidence and argument that small energy suppliers will not be disproportionately affected.
Rationale and options	Satisfactory	The IA provides a clear rationale for intervention and describes the preferred option in detail, but it would benefit from providing more information on other options considered and why they were rejected.
Cost-benefit analysis	Good	The Department has provided a highly-monetised assessment of societal impacts. The IA would benefit from greater discussion of consumer behaviour and risks, or from providing clearer references to where further information is available in the Department's cost-benefit analysis.
Wider impacts	Satisfactory	The IA's consideration of wider impacts is satisfactory. The opinion identifies some areas for strengthening, such as in relation to network management and information-sharing.
Monitoring and evaluation plan	Good	The Department has committed to a review and further consultation in 2023 to help determine targets for the final two years of the rollout. It also plans to produce a further IA covering the third and fourth years of the policy.

Response to initial review

As originally submitted, the IA was not fit for purpose because it treated some of the benefits to energy suppliers as direct rather than indirect, which was not in line with RPC guidance². The RPC was not, therefore, able to validate the Department's EANDCB figure. The Department has provided information about these benefits and has re-classified some of them as indirect, e.g. improved debt handling. As a result, the EANDCB increased from around £11 million to £48.8 million.

Our initial review also found the SaMBA as being not fit for purpose. It had changed little since the consultation stage IA and needed to be strengthened in certain areas: identifying the number of small and micro energy suppliers affected, assessing potential disproportionality of impacts and discussing possible mitigations. The Department has now expanded the SaMBA substantially, addressing these areas much more fully.

Summary of proposal

The proposal sets annual targets for smart meter installation during a period of four years (from 1 January 2022 to 31 December 2025) for each energy supplier. At this stage, the targets and tolerance values will be set for only the first two years of the new framework, with a review planned in 2023 to set the tolerances for the final two years of the framework. The proposal also extends the current 'all reasonable steps' framework for six months to 31 December 2021.

The Department estimates a net present value (NPV) of £1,193 million, a business NPV of £309.5 million and an EANDCB of £48.8 million. Costs are incurred by energy suppliers for (a) purchasing metering assets (smart meters, in-home displays, and communications hubs) and (b) installing meters. Business users of smart meters will benefit indirectly from energy savings, and energy suppliers will benefit, for example, from avoided site visits, reduced customer service enquiries and lower costs to serve pre-payment customers.

EANDCB

The Department engaged with the RPC prior to submission of the revised IA. As a result of this engagement, the Department has re-classified the following benefits to energy suppliers as indirect:

- Improved debt handling.
- Network benefits.
- Generation benefits.

² <https://www.gov.uk/government/publications/rpc-case-histories-direct-and-indirect-impacts-march-2019>

- Reduced customer service enquiries.
- Reduced theft and losses.

The RPC considers that these adjustments are correct, on the basis that these benefits rely upon customers and suppliers acting on information provided by smart meters. The treatment of '*reduced customer service enquiries*' is less certain. The Department's treatment of these benefits as indirect seems reasonable, on the basis that it concerns customer service enquiries more broadly. (Savings relating to customer enquiries that relate specifically to smart meter information might be considered direct benefits.)

The Department has provided more information on how benefits in relation to '*lower costs to serve prepayment customers*', '*streamlined customer switching processes*' and '*streamlined change of tariff processes*' arise. The treatment of these benefits as direct seems reasonable because the Department has confirmed that they relate only to customers who are expected to switch regardless of whether or not they have a smart meter installed. Therefore, the benefit relates to where having a smart meter makes the process (e.g. change of tariff) cheaper and/or easier, as opposed to customers changing their behaviour because they have a smart meter and/or are acting on information from it.

Overall, the adjustments to the direct/indirect classification of benefits have increased the EANDCB from around £11 million to £48.8 million.

The IA's BIT section would benefit from setting out explicitly which benefits are treated as direct or indirect and the reasoning behind the classifications, drawing upon RPC guidance as appropriate.

The IA would be improved by providing further explanation of the assumptions underpinning installation costs, in particular how the two hours per installation estimate was calculated.

SaMBA

The SaMBA is now sufficient and fit for purpose. The IA now explains more fully why the Department has not been able to obtain information on energy suppliers by the number of employees, and includes an analysis by turnover. This analysis indicates that 16 out of 84 retail energy suppliers are small businesses, with one being a micro business. Although smart meter coverage for most of these businesses is lower than the market average, the IA explains that financing arrangements enable deployment costs to be spread over the lifetime of a metering asset, mitigating any disproportionate burdens. The IA also notes that these smaller businesses will be able to use newer, lower-cost technology than was available for past installations, and benefit from technical issues having been resolved as a result of industry collaboration. The SaMBA also addresses the risk, raised by one consultee, that metering assets will become more expensive and have a disproportionate impact on smaller suppliers.

Rationale and options

The IA provides a good explanation of the rationale for intervention. The Department consulted on proposed options in September 2019 and states that the Government's response to the consultation in June 2020 confirmed the policy approach, having considered different options. However, the IA considers only the do-nothing and the preferred options. It would benefit from providing a summary of other options that were considered, and the reasons they were not taken forward.

The IA would also benefit from discussing whether measures that, potentially, deliver greater consumer benefits (e.g. smart pricing, automatic switching and privacy safeguards) might also help improve customer uptake, and considering whether implementing those measures could be achieved through modifications to the preferred option and/or complementary regulation.

Cost-benefit analysis

The Department has provided a highly-monetised assessment of societal impacts.

The IA makes it clear that energy suppliers are obligated to provide smart meters as part of their licencing conditions for energy suppliers, and that the IA is not concerned with assessing this obligation. Nonetheless, the RPC believes that the IA would benefit from discussing risks associated with energy suppliers being responsible for the rollout, given reports of issues around consumer mobility, interoperability and fragmentation associated with the previous rollout. It would benefit more generally from having a separate section that analyses risks in detail.

The IA could be improved by discussing factors that might influence consumer behavioural change, such as sensitivity to energy prices and their working patterns, or at least providing clearer reference to where such information is in the Department's cost benefit analysis.

The IA would also benefit from providing information specifically on impacts associated with ensuring that all meters are SMETS2 standard and the costs and benefits associated with setting up the Data Communications Company, or providing clear references to where this information is in the Department's cost benefit analysis.

Wider impacts

The IA reflects *Ofgem*'s confirmation that the new policy framework is more straightforward than the current one and, therefore, does not expect it to be more costly to monitor and report on.

The IA would benefit from considering how consumer education and increased consumer awareness will be achieved and who will bear the costs.

The IA now mentions network management but would benefit from considering in more detail the use of smart meters to improve network management (i.e. smart networks), or providing clear references to where this is covered in the Department's cost benefit analysis.

The IA could be improved by discussing benefits from sharing information, in particular the possibility of making customers' detailed utilisation available to rival suppliers and its associated potential consumer-switching benefits and risks.

Monitoring and evaluation plan

The IA includes a useful reporting and monitoring section. The RPC notes that the Department intends to review the new framework in 2023. It plans to consult in support of setting targets and tolerances for the final two years of the framework. It also plans to produce a further IA to cover the third and fourth years of the policy. While the RPC welcomes these commitments, the IA would benefit from setting out its approach in more detail, for example data that would be collected for the review.

Regulatory Policy Committee

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