

Raising the non-domestic smart meter consumer offer

Lead department	Department for Business, Energy and Industrial Strategy
Summary of proposal	The Government are seeking to improve the quality and provision of usage data for non-domestic smart meter users to allow this cohort of users to make better-informed decisions.
Submission type	Impact assessment (IA) – 16 March 2022
Legislation type	Secondary legislation
Implementation date	July 2022
Policy stage	Final
RPC reference	RPC-BEIS-5090(2)
Opinion type	Formal
Date of issue	25 May 2022

RPC opinion

Rating ¹	RPC opinion
Fit for purpose	The IA includes a good discussion of the current policy position, as well as the level of provision and utilisation of non-domestic smart meter data, to support its rationale. The IA discusses a range of options that were considered originally, but it would benefit from attempting to quantify some of the alternative options. Extensive prior engagement has been used to inform the policy and analysis, with responses to consultation helping to shape the proposals. The IA considers a range of impacts on suppliers and includes indicative estimates of the likely benefits of the proposals. Small and micro businesses (SMBs) are considered both as suppliers and as consumers, while the IA explains that an exemption for SMBs is not feasible. The Department commits to using existing monitoring and evaluation (M&E) facilities in place for the wider smart meter policy, to assess the impact of these proposals.

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.

Business impact target assessment

	Department assessment	RPC validated
Classification	Qualifying regulatory provision	Qualifying regulatory provision (IN)
Equivalent annual net direct cost to business (EANDCB)	£11.8 million (initial IA estimate) £11.7 million (final IA estimate)	£11.7 million <i>(2019 prices, 2020 pv)</i>
Business impact target (BIT) score	£58.5 million	£58.5 million
Business net present value	£464 million	
Overall net present value	£1,061 million	

RPC summary

Category	Quality²	RPC comments
EANDCB	Green	The IA identifies a range of impacts of the proposals and provides quantification of these where appropriate. It now provides sufficient clarity of the counterfactual, to enable assessment of the proposals to occur.
Small and micro business assessment (SaMBA)	Green	The IA discusses the impacts on SMBs, both as suppliers and consumers. Due to evidence limitations, the IA uses turnover data to identify the number of SMBs in scope of the requirements. A clear explanation of why exemption is not feasible is provided and mitigation has been considered within the policy design process.
Rationale and options	Satisfactory	The IA provides a rationale for intervening and includes a clear set of policy objectives. It discusses the current policy landscape (including current non-regulatory interventions). It would, however, benefit from considering whether a non-regulatory option could work in some capacity to correct the issues identified.
Cost-benefit analysis	Satisfactory	The Department has used consultation to supplement the evidence base used to inform the IA. The IA now provides sufficient discussion of the methodological approach and includes evidence to support this analysis and key assumptions, as appropriate. The IA would benefit from including more detail of the work leading to the indicative benefits.
Wider impacts	Satisfactory	The IA includes a discussion of the innovation, competition, equalities and public sector impacts. However, it should discuss what trade and investment impacts there may be. Consideration of the impacts on competition should be developed further.
Monitoring and evaluation plan	Satisfactory	The Department commits to undertaking a review of this policy. The IA includes reference to broader M&E being undertaken on a programme level and discusses the specific areas of this that will be used to monitor these proposals. It would benefit from including discussion of how success/impact will be determined.

² The RPC quality ratings are used to indicate the quality and robustness of the evidence used to support different analytical areas. Please find the definitions of the RPC quality ratings [here](#).

Response to initial review

As originally submitted for RPC scrutiny, the IA was not fit for purpose as the baseline/counterfactual position was not sufficiently established, which limited the RPC's ability to assess the additionality of the impacts estimated. Furthermore, the IA included insufficient explanation of the methodological approach taken, and some key assumptions lacked appropriate justification.

The Department has now expanded substantially upon its discussion of the counterfactual position. The IA now also provides sufficient explanation and discussion of the evidence used to support key assumptions, and has clarified the methodology used to estimate costs. The Department has also taken this opportunity to refine some of the analysis, in line with the points above (e.g. using more appropriate optimism bias adjustments and familiarisation cost assumptions).

The amendments made to the IA, has resulted in the EANDCB figure reducing slightly, from £11.8 million to £11.7 million.

Summary of proposal

At present, energy suppliers are not required to provide their non-domestic customers (all those in non-residential locations) with data held about their energy consumption. While domestic customers are provided with their energy usage information, in a timely manner, as standard, energy suppliers are required to provide the same information to non-domestic customers only when they request it. The Government propose to introduce legislation that will bring the requirements for the provision of energy usage information for non-domestic customers in line with those for domestic customers. The IA presents two options for consideration of achieving this:

- Do nothing – where energy suppliers are required to provide energy consumption data by request only.
- Option – to require energy suppliers to provide non-domestic smart meter users with free and timely information on their energy consumption.

The preferred option has been developed further following feedback from the consultation.

The main costs of the proposals are identified as initial investment costs (both fixed and variable, including elements such as familiarisation and other administrative costs) and ongoing running costs (again both fixed and variable). The Department assesses all of these as direct costs incurred by business.

Meanwhile, the IA highlights that the primary benefits will be energy savings (to consumers), reductions in carbon emissions and improvements in air quality. All of these benefits are assessed as indirect.

The EANDCB for the preferred option is £11.8 million.

EANDCB

Counterfactual/baseline

The IA discusses that the intent of the proposals, is to accelerate the provision of non-domestic consumer data. It now provides sufficient clarity on the current rate, and quality, of non-domestic user data provision. In addition, the IA includes clear quantification of the counterfactual/baseline position, both in terms of data provision and non-domestic consumer utilisation, from which the impacts of the preferred option are calculated.

Non-monetised impacts

The IA identifies several non-monetised impacts and notes that these cannot be monetised adequately for inclusion in the IA. While the RPC accepts the uncertainty of these impacts and the resulting difficulty in providing robust quantification of their scale, the IA would benefit from providing indicative figures (perhaps on a unitary basis, if an aggregate figure cannot be provided) for at least some of the impacts, such as the rollout and third-party benefits.

SaMBA

Scope

The IA's SaMBA considers SMBs as both energy providers, and as non-domestic consumers. The IA discusses the impacts on these two groups separately and also notes that most non-domestic consumer firms are SMBs.

The Department highlights the difficulty in using conventional data sources (e.g. employee data) to assess the number of SMBs in scope, and presents an alternative means (turnover based) of stratifying businesses. The RPC welcomes the IA's use of turnover data to provide an indication of the firms in scope of complying with the proposed requirements.

Exemption and mitigation

The IA acknowledges that the initial fixed cost investment could have a disproportionate impact on SMB energy suppliers. However, the IA explains clearly why an exemption for SMBs would not be appropriate, as it may lead to unintended consequences as well as undermining the objectives of the policy.

Mitigation has been considered within the policy design itself, rather than through standalone actions to assist SMBs in adhering to the new requirements. The IA explains how different aspects of the proposals have been shaped to enable SMBs to comply more easily.

Rationale and options

Rationale

The IA sets out the rationale for intervention, describes the current policy landscape (covering regulatory requirements and non-regulatory interventions), and provides a clear set of policy objectives. The primary aim of the policy is to accelerate the rate of provision of usage data to non-domestic consumers. The main barriers to this occurring are identified as imperfect information (e.g. lack of engagement from consumers), direct data access issues (e.g. inefficiencies preventing third parties from being able to use it), and misalignment of incentives (e.g. suppliers are not the beneficiary and do not have an incentive to change). While the IA makes clear that the current level of data provision is not to the desired standard, it would benefit from considering whether suppliers, driven by downward pressures on them due to recent energy market impacts, may in fact seek to develop better data tools as a means to set themselves apart from their competitors and attract new, or retain current, customers.

Options

The IA presents only two options for full consideration; do-nothing and the preferred legislative option. As noted in the policy summary, the preferred option differs from that considered at the consultation stage, reflecting stakeholder evidence and feedback. The IA discusses additional legislative options that were considered but discarded. The IA would benefit from including details of these options and providing quantification of their likely impact, to provide additional context to the expected impacts of the preferred option.

The IA presents the do-nothing option, as the non-regulatory option. While this represents a version of non-regulatory action, the IA should consider what additional non-regulatory options could have been implemented to correct the issues identified, given the current policy landscape.

Cost-benefit analysis

Evidence

The Department used consultation and further stakeholder engagement to improve upon the evidence base developed for previous linked policies. This new evidence has been used to update calculations from pre-consultation estimates.

The IA includes indicative indirect benefits that are based on previous smart meter analysis. The IA states that in the “High” data offer, 160 per cent of the average benefits assumed in the 2019 analysis will be realised, without providing sufficient evidence to support this figure. Similar assumptions are made relating to the “Medium”, “Low” and “Minimum” data offers. The IA states that these figures are in line with Non-Domestic Smart Energy Management Innovation Competition case

studies but the details, or applicability, of these have not been explained sufficiently. The IA should include further evidence to support inclusion of these indicative benefits.

Methodology

The Department has now accounted for optimism bias, and adjusted the estimates for capital expenditure, supported by the appropriate HMT Green Book guidance³. The IA now includes a more-detailed description of the approach to the analysis.

Assumptions, risks and sensitivity

The Department has provided appropriate justification and evidence to support the key assumptions, in particular those relating to familiarisation costs. The IA establishes clearly why SMBs are likely to face similar levels of familiarisation costs as larger firms, due to current industry practices/requirements that mean even the smallest supplier would have someone employed as a “regulatory affairs and compliance” officer.

The Department has elected not to include any sensitivity analysis, due to the lack of clarity over the amount that key inputs would vary. While the RPC acknowledges the Department’s reticence to include sensitivity analysis, which would not be illustrative of the likely variance, the IA would benefit from identifying clearly the key assumptions/inputs.

Wider impacts

Innovation

The impacts on innovation are addressed throughout the IA, in addition to a discussion in the “Wider impacts” section of the mechanism through which the Department expects these impacts to occur.

Competition

Competition is discussed at various points in the IA. It touches upon the impacts of consumer renewal choices and notes that the Department does not expect these proposals to create any significant barriers to entry. However, it would benefit from including a discussion of the potential impacts and changes to market dynamics, resulting from the new minimum standards for data provision. For example, in the IA’s discussion of rationale, it notes that there is a perceived first-mover disadvantage. If, therefore, a minimum standard of data provision was introduced, this may benefit some businesses more than others if they are already in a position to offer said information.

³ <https://www.gov.uk/government/publications/green-book-supplementary-guidance-optimism-bias>

International trade and investment

The IA states that the proposals are not expected to have an impact on trade and investment, however the IA would benefit from considering whether investment into the development of data tools (particularly those by third parties), may be driven by international investment.

Distributional impacts

The Department has undertaken an equalities impact assessment for the proposals and includes in the IA, a detailed discussion of the findings of this work.

Public sector

The impacts on the public sector are addressed briefly in the IA. The Department discusses a range of factors that affect public sector consumers in their ability to engage with their smart meter data. This includes management decision-making and available funding, and concludes that there is no evidence to suggest that public sector premises with smart meters have less of an incentive to engage with their energy data. The IA would benefit from considering whether due to different operating structures or day-to-day priorities, public sector organisations would have the same capacity to engage with their smart data, even if they may have similar incentives to business. For example, a public sector organisation may be less likely to employ someone in a relevant position, or have the appropriate knowledge, to be able to act on the information.

Other

The IA addresses only briefly - at the conclusion of its consideration of the impact on the public sector - the impacts on civil society organisations, as the Department assesses the two to be fairly similar in their engagement with smart meters. As noted above for the public sector, the IA would benefit from considering what additional barriers civil society organisations face when engaging with their energy consumption data.

Monitoring and evaluation plan

The Department commits to undertaking a review of the measures. The IA discusses how there is already an M&E plan in place for the broader smart metering policy, and that the proposals feed into this, and notes they share similar objectives. This M&E is already underway, and the evaluation of the proposals covered by the IA will utilise parts of this work. The IA sets out specific M&E activities that will be used to assess the impact of this intervention, however it would benefit from discussing for what the Department is looking in these activities, which would demonstrate success.

Regulatory Policy Committee

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