

Lord Henley PC Parliamentary Under-Secretary of State

Department for Business, Energy & Industrial Strategy 1 Victoria Street London SW1H 0ET

T +44 (0) 20 7215 5000

E <u>enquiries@beis.gov.uk</u>

W www.gov.uk

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My north ,

SMART METERS BILL – SECOND READING DEBATE

Thank you for speaking in the Second Reading of the Smart Meters Bill on 13 March 2018. A number of questions were raised and I promised to write addressing these. I set out below, in order of the three measures in the Bill, further detail which I hope your Lordships find helpful.

MEASURE 1 - EXTENSION OF REGULATORY POWERS

Rollout obligation

The obligation on energy suppliers, which is a condition of their licences, is to take all reasonable steps to install smart meters in homes and small businesses covered by the smart metering mandate by the end of 2020. The Government's commitment is to ensure all those homes and businesses are offered smart meters by the end of 2020. This wording simply reflects the fact that smart meters are voluntary for consumers and they can choose not to have a smart meter installed. The rollout obligation puts the onus on energy suppliers to show that they have made reasonable efforts with their customers. Ofgem regulates energy suppliers' compliance with their licence obligations and has powers to impose financial penalties of up to 10% of a licensee's turnover in the event of non-compliance. Ofgem has also made clear in an open letter that energy suppliers need to adapt their approaches to consumer engagement, use a multi-channel approach and learn from experience, so only making a solitary offer in one format is not likely to be in line with this guidance.

Extension of powers to 2023

During the debate concerns were raised that the proposed extension of regulatory powers to 2023 was ultimately an intention to move the 2020 rollout obligation deadline. I would like to make it clear that energy suppliers remain legally obliged to complete the smart meter rollout by the end of 2020. But the benefits from the Programme go beyond this date, and consumers' interests need to be protected against unforeseen events.

Extending the Secretary of State's powers to 2023 will ensure that the Government can continue to oversee the completion of the rollout by the end of 2020 and help consumers get the most from their smart meters once installed. The Government also needs sufficient time to undertake and execute actions arising from a post-rollout review of the Programme. This will need to draw on evidence from the rollout itself and from a period after its completion.

Progress towards achieving 2020 obligation

The Government is committed to ensuring all homes and small businesses are offered smart meters by the end of 2020. When debating progress towards 2020 your Lordships raised concerns about the achievability of the deadline as well as the strength of the rollout obligation on energy suppliers, which I have responded to above.

The rollout presents a significant challenge in delivering a much needed digital transformation to our energy system. It will provide the platform for a smarter, more flexible energy system that supports innovation in new smart products and services. It is also well underway, with nearly 8.6 million smart and advanced meters operating as of end September 2017 and installations at a rate of 400,000 meters a month. The rate of rollout has been accelerating each quarter and energy suppliers' own plans show that they expect to continue to ramp up their activity going forward. A further quarterly update on installation numbers to the end of December 2017 will be published by BEIS on 27 March 2018 and a copy will be placed in the libraries of both Houses.

Ensuring full interoperability

A key aim of the smart metering Programme is to protect consumers' ability to switch energy suppliers without the loss of their smart services and without inconvenient and costly changes of smart metering equipment. This is known as interoperability. During the debate clarification was sought on how this objective would be met in relation to the first generation of smart meters, usually known as SMETS1 meters. It is worth reflecting on why there are SMETS1 meters at all. A standard for the minimum common functionality of smart meters, known as SMETS1 was proposed in 2011 to stop the variability in the smart-type meters which some suppliers were already installing. If the Government had done nothing there would have been millions of meters in homes and businesses across Great Britain that at no point in the future could have been made compatible. SMETS1 meters have given suppliers valuable experience and the opportunity to build their own capability ahead of the Data Communication Company (DCC) infrastructure being in place.

Millions of customers are benefiting from SMETS1 meters. At the same time, the industry is better placed to deliver the second generation of smart meters, known as SMETS2 meters - which are fully interoperable and which most consumers who want one will receive.

Consumers with SMETS1 meters can switch energy suppliers and they are also in a far better position than others to switch, as they already have accurate, real time-information about their energy usage and costs. However, in some cases the new energy supplier will not be able to continue to provide smart services. In these circumstances the meter will still accurately record energy consumption and meter readings will simply go back to being taken manually.

This situation is temporary as DCC is leading a project to enable SMETS1 meters to be operated within its national data and communications system. This will ensure that consumers keep their smart services when they switch. Subject to a cost benefit assessment and technical review, DCC plan for SMETS1 meters to begin to be remotely upgraded to make them interoperable from late 2018. As a result, consumers who have lost smart meter services should have these re-established.

DCC delays and the transition to SMETS2

DCC has had to design, build and thoroughly test a new national data and communications network capable of providing at least 99.25% coverage, and which is secure, effective and provides full interoperability across the more than 60 energy suppliers currently operating. It

was essential to get this right for consumers and industry, so as to avoid unnecessary costs and disruption.

It is for energy suppliers to manage a smooth transition to SMETS2 meters as part of their rollout obligations and we signalled well in advance when SMETS1 meters will no longer count towards meeting these obligations (the SMETS1 end date is 5 October 2018). Large energy suppliers have begun to install SMETS2 meters at pilot volumes ahead of the planned transition later this year.

Coverage

Smart metering communications can be broadly divided into two types of network.

First, there is the 'Home Area Network' or HAN which is established inside the consumer's premises and enables the smart meter to communicate with the In Home Display and other 'smart devices'. The standard HAN solutions are expected to serve around 95% of homes, from early 2019 but in some premises the standard solutions will not be effective. For example, difficulties may arise in blocks of flats where meters are located away from the living areas. In order to maximise consumer benefits in the small number of properties where the current HAN solutions are not effective, an industry led Alternative HAN Forum has been established to oversee and drive technical developments with solutions expected to be available in 2019.

Second, there is the 'Wide Area Network' or WAN which connects smart meters to the DCC system. Communication Service Providers or CSPs are sub-contracted by DCC to deliver WAN coverage targets of at least 99.25% of GB premises and areas by 2020. DCC has an ongoing obligation to explore and to then implement innovative and cost effective ways of covering the remaining premises and areas.

Security and privacy

The smart meter security model establishes physical, regulatory and operational security controls backed by independent security assurance arrangements. For instance, critical commands will only be accepted by the smart meter if they are issued by the responsible energy supplier, are authenticated through strong encryption, and have to be counter-signed independently by DCC.

In order to protect consumers' interests, whilst at the same time enabling proportionate access to consumption data, the central principle is that consumers have control over who can access their detailed consumption data and for what purposes, except where this is required for regulated purposes. The Government has committed to concluding a review of the Data Access and Privacy Framework by the end of 2018. In undertaking this review, the Government will engage widely with stakeholders and draw evidence from a range of sources. Conclusions will be published.

Communicating the rollout

Consumers are at the heart of the smart meter rollout and the perspective of consumers was considered in detail during the debate. In responding to points raised about this subject I would like to address two main areas: awareness raising and ensuring that consumers can make informed decisions.

In relation to the first of these areas, a programme of national engagement is being delivered by Smart Energy GB – an industry-funded, independent body - to raise awareness of smart meters, drive behaviour change and help consumers benefit from smart metering. This approach is working. Awareness of smart metering has increased from 40% to over 80% in

three years and has driven demand for millions of smart meter installations to date. Government research shows that 80% of consumers with smart meters would recommend them to friends or family.

In relation to the second area, it was suggested that transparency around the smart meter rollout and the energy industry more widely could be enhanced by requiring energy suppliers to provide information on rollout costs in consumer bills. It's worth noting that energy bills already give consumers a significant amount of information including the wholesale costs of energy, network costs, energy suppliers' operating costs and profit margins, as well as the costs of policies with environmental and social objectives. Metering costs are already included, as part of energy suppliers' operating costs, and this will continue to be the case for smart meters. What is important is that consumers are empowered with the information on their energy use to make efficient energy use decisions and this is exactly what smart meters will bring.

Supporting vulnerable consumers

Ensuring that vulnerable consumers benefit from the smart meter rollout is one of the main aims of the Programme's consumer engagement strategy, as well as being a key objective for Smart Energy GB. Smart meters are already delivering significant benefits for consumers in vulnerable situations, building these consumers' confidence in their energy use and improving their levels of comfort. A Smart Meter Installation Code of Practice requires energy suppliers to take the needs of vulnerable consumers into account during the installation visit and ensure that communications and demonstrations of equipment meet their needs. In addition, In Home Displays are required that the information they hold is easily accessed and to present information in a form that is clear and easy to understand, including by consumers with impaired sight, memory and dexterity.

Smart meter accuracy

Smart meters installed in Great Britain must comply with relevant metering legislation on measurement at the time of installation. The Office for Product Safety & Standards (OPS&S) in BEIS regularly monitors the accuracy of meter populations through the in-service testing scheme. In the unlikely event that consumers do have issues with their smart meter they should raise this with their energy supplier in the first instance. If it is not resolved to their satisfaction, they can raise a complaint to the Energy Ombudsman who has powers to independently deal with certain complaints.

MEASURE 2 - SPECIAL ADMINISTRATION REGIME

DCC risk of insolvency

During the debate it was suggested that the inclusion of measures to establish a Special Administration Regime for DCC was motivated by concerns about the financial position of the current licensee. I would like to be clear that this is not the case; establishing a Special Administration Regime has been a priority for the Programme and the relevant clauses formed part of the draft Bill submitted for pre-legislative scrutiny in 2016, with the DCC system going live later in 2016. DCC's financial arrangements are constructed so as to make the risk of insolvency low and the proposed Special Administration Regime is entirely precautionary. It would bring DCC in line with energy network companies, energy suppliers and equivalent organisations in other sectors such as rail, for which bespoke Special Administration Regimes are already in place.

Administration Costs

In considering the establishment of a Special Administration Regime, the debate focussed on the costs associated with such a regime, their extent and how they would be recovered. The estimated potential scale of the costs will depend on a number of factors. This could include the timing of and reason for the DCC Licensee entering special administration; the operating costs of the DCC Licensee at that time; and costs specifically resulting from special administration (e.g. the costs of any legal and technical expertise). The administrator would be under a duty to manage the company in a way that ensures that services continue to be supplied efficiently and economically and to conclude administration as quickly and as efficiently as is reasonably practicable.

MEASURE 3 – HALF HOURLY SETTLEMENT

Consumer choice/ privacy

The Government expects energy suppliers to develop and offer new, smart time-of-use tariffs that will be attractive to consumers and help realise system-wide benefits and savings. The choice of which tariff to accept will however remain entirely with the consumer – as it is today. Consumers will not be required to take up time-of-use tariffs.

Ofgem is currently considering options for access to consumers' half-hourly data for settlement purposes, with the aim of developing a data access regime that provides appropriate consumer safeguards whilst enabling the delivery of the benefits of market-wide half-hourly settlement. Ofgem intends to consult on options for access to data for settlement purposes in Spring 2018. This will be supported by a Privacy Impact Assessment.

I am placing a copy of this letter in the Libraries of both Houses.

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The Rt Hon Lord Henley