Rob Turner
Smart Metering Implementation Programme

Email:

Date: 13 October 2011

Dear Rob,

Ofgem's response to DECC's consultation on draft licence conditions and technical specifications for the roll-out of gas and electricity smart metering equipment

We welcome the opportunity to respond to DECC's consultation on the roll-out of smart metering equipment ('smart meters'). As the gas and electricity market regulator, our principal objective Is to protect the interests of existing and future gas and electricity consumers, wherever appropriate by promoting effective competition. In carrying out our functions we must also have regard to, amongst other things, the Interests of vulnerable consumers, including those who are disabled or chronically sick, of pensionable age, with low Incomes, or residing In rural areas.

As you know, Ofgem E-Serve managed the policy design phase of the Smart Metering Implementation Programme ('the Programme') on behalf of DECC. This concluded with the publication of the Government's Response In March 2011 ('the Response'). In our view, the Response set out a robust high-level policy design for the smart meter roll-out, consistent with protecting the interests of consumers.

Ofgem has a role in helping to ensure that the interests of consumers remain protected, both during the transltlon to smart meters and once the rolf-out is complete. We will also play a key role in monitoring and, where appropriate, enforcing compliance with new regulatory obligations relating to smart meters. We are therefore providing advice to the Programme during Its implementation phase.

This consultation Is a positive step In developing the regulatory framework for the smart meter roll-out. We welcome that, for the most part, it retains the policy design detailed in
the Response. We set out below three key issues covered in the consultation that we believe require particular attention.

(a) Setting the roll-out completion date

We recognise the importance of setting an ambitious but achievable completion date for the roll-out. To protect the Interests of consumers and to maintain their confidence, the smart meter roll-out must be achieved In a cost-efficient and effective way. Prices should reflect efficient costs, and a completion timetable that is challenging for all suppliers will support this objective. Where the completion timetable is not sufficiently challenging, some suppliers may be able defer their investment In smart metering. This creates the potential for prices to increase ahead of costs, unnecessarily increasing the cost to consumers. Any incentives on suppliers to defer Investment could also have customer service Impacts, if unnecessarily large volumes of work are pushed towards the end of the roll-out period.

The Programme's choice of completion date should therefore be underpinned by a robust evidence base, Including analysis of the risks, costs and Incentives. An achievable completion date will create certainty and strengthen incentives on suppliers to take the practical steps needed to begin the roll-out. Consideration should be given to the implications for all parties, including small suppliers where relative cost impacts may be greater, thereby affecting the competitiveness of the market.

Delivery of key Programme milestones, such as a mandated technical specification, Is likely to affect suppliers' ability to roll out smart meters. The roll-out completion date should therefore be considered in the context of the overall Programme timetable – including, importantly, the steps taken by the Programme to establish a commercial environment for the Foundation stage such that early, voluntary roll-out by suppliers is not unduly hampered. Suppliers will also need resources to meet existing and prospective commitments, for example from other Government or industry-led programmes, and this should be taken Into account when developing the Programme timetable.

(b) Finalising the minimum functional requirements

The minimum functional requirements[1] for smart meters set out in the Response were based on the information on costs and benefits available at that time. We supported those requirements as delivering benefits to consumers and the wider market. The consultation proposes some changes to the minimum functional requirements detailed in the Response.

We are particularly keen to see that any potential impact on consumers of changes to the minimum functional requirements is carefully assessed. For example, there are proposed changes to the information provided by the In-Home Display (IHD). The IHD will be the most visible part of the smart meter for domestic consumers, and it Is Important that the information displayed Is clear and relevant to them. We note the proposal that IHDs will be capable of displaying an account balance if suppliers choose to provide that information via the IHD, but suppliers will not now be required to do so. If made available on the IHD, this Information would complement the mandated information on cumulative costs of consumption. Account balance information could help consumers better assess how well their payments match their energy consumption, which Is an indicator of good customer service. This information may be particularly relevant where smart meters enable consumers to reduce their consumption, and hence where the risk of payments running ahead of consumption is potentially greater. Information which helps consumers determine whether they are receiving good service Is good for competition, because it helps consumers to hold their energy supplier accountable. It is important that these benefits are factored in to the overall assessment.

We do not have evidence on the value of account balance information to consumers, and recognise there will be costs to suppliers of providing this information via the IHD. However, research conducted using Ofgem's Consumer First Panel in November 2010 found that consumers see an improved ability to budget and save money as key benefits of smart metering[2]. It is therefore important that the Programme has a robust evidence base, including views from consumers, to support this and any other proposed change to the minimum functional requirements before making a final decision.

(c) The Smart Metering Equipment Technical Specification (SMETS)

We welcome the progress that the Programme, working closely with stakeholders, has made in developing the technical specification for smart meters. The technical specification is the key enabler for technical interoperability. Technical interoperabllity is critically Important in helping to ensure that consumers can realise the benefits of their smart meters, for example

[1] By "functional requirements', we mean the minimum functions that must be supported by the different elements of the smart metering equipment, set out In terms of what the system must do, rather than how it must do so.
[2] *Ofgem Consumer First Panel Year 3 - 2010/2011: Findings from first workshops (held In November 2010),* Ofgem, January 2011

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by allowing them to switch supplier without the need to replace any of their smart metering equipment. This Is essential for the smooth functioning of a competitive retail market.

As the consultation sets out, further work Is required to make sure that the mandated technical specification delivers Jnteroperabllity. In particular, we welcome the Programme's work to understand the most effective and efficient approach for specifying arrangements so that the Home Area Network (HAN) supports interoperabllity for smart meters and other devices that may be connected to tt. Please note that we have not undertaken a technical review of the consultation document or the accompanying Industry's Draft Technical Specifications (lOTS), which the consultation proposes will form the basis of the SMETS.

Effective governance arrangements for the SMETS are needed m both the Foundation stage and the enduring regime, In particular to enable It to evolve over time. More generally, the Programme needs to consider how the SMETS will fit Into the enduring regulatory framework. We recognise that the regulatory framework for smart meters is still In development and are happy to discuss overall regulatory design Issues with the Programme as their thinking develops.

Related Ofgem work

We are already taking steps to help ensure consumers remain protected before the new regulatory framework relating to smart meters is In place. Our Smart Metering Consumer Protections Package includes measures to protect consumers, particularly vulnerable consumers, where remote functionality Is used to switch a customer to prepayment mode or for dlsconnection[3]. These measures took effect on 1st October 2011. We are separately consulting on measures to facilitate the change of supplier process for domestic customers who are currently receiving meters with advanced functionality[4]. In addition, we are considering how to ensure a smooth run-down of traditional metering, for example through our Review of Metering Arrangements (ROMA)[5].

Future developments that build on a successful smart meter roll-out have the potential to benefit consumers and industry more widely. We are therefore developing a strategy for market development consequent to the roll-out, which will help unlock further value for consumers. In addition, DECC and Ofgem recently established the Smart Grids Forum to focus on future electricity network development. Strong engagement between the Programme and the Forum will help to ensure coherence between the smart meter roll-out and the development of electricity network policy. We will continue to seek vtews from consumers to inform our work in these (and all other) areas.

We support the Programme's commitment to introduce the changes to the regulatory framework that are required for the smart meter roll-out at an early stage. Regulatory certainty will be an Important factor in delivering the Programme efficiently. We welcome your constructive engagement with us and other stakeholders thus far, and look forward to further discussions In the coming months. If you have any questions about this response in the meantime, please contact

Yours sincerely

[3] l'lttoz //ww w.ofuem.gov.uk/Sustalnabtlity/SQCActjoo/Public?ltlons/Documents1/Modtflcatlon%l0Directlon.odf
• *CommerdalInteroperablity: proposals in respect of managing domestic customer switching where meters with advanced functionality are Installed,* Ofgem, August 2011
[5] http: 1/www .!Jfut:m.gov.uk/Markets/sm/meterlng/tftm/mma/Pages/roma.aspx