

Department of Energy & Climate Change
3 Whitehall Place,
London SW1A 2AW
E: Antonia.burbidge@decc.gsi.gov.uk
www.decc.gov.uk

22 December 2011

Dear Colleagues,

RE: OPEN LETTER – POSSIBLE EXEMPTION FOR SMALL SUPPLIERS FROM THE SMART METERS ROLL-OUT OBLIGATION

This open letter seeks views on a possible exemption for small suppliers from the smart meter roll-out obligation in limited circumstances.

This letter, and request for responses, focuses specifically on the position of small suppliers. However, we also intend to discuss with stakeholders the case for providing some form of time-limited exemption for large suppliers, reflecting the short delay in the completion of mandatory technical specifications, to support early Foundation Stage deployments.

The Government has published plans for the mass roll-out of smart meters from 2014, with completion of the roll-out in 2019. In August 2011 we consulted on the draft licence obligation that requires suppliers to take all reasonable steps to install a compliant smart meter by the completion date in 2019. This consultation closed on 13 October 2011, we are currently considering responses.

Some of the small suppliers that are already installing meters with smart functionality have argued for exemption from the replacement obligation for such meters, ahead of the confirmation of technical specifications for compliant meters.

The Government has pledged to consider how it can reduce barriers to market entry and growth. DECC has made provisions to ensure that barriers have been addressed in other policy areas, for example, the CERT and CESP programmes.

It is vital that the energy supply market operates on a fair and effective basis and that we avoid creating barriers to entry and growth through our approach to smart metering.

It is also important that suppliers are able to continue to install meters with smart functionality during the Foundation Stage. However, in considering an exemption approach, we must also ensure that consumers are protected and that the overall business case costs of the Programme do not significantly increase.

Current policy framework

I recognise the importance of providing certainty as soon as possible on the technical specifications for smart meters and on 30 November 2011 I announced that by early March 2012 the Department plans to publish specifications for meters which will count against suppliers' roll-out obligations. We will notify these specifications to the European Commission in March and subsequently will amend suppliers' licence obligations, with the relevant conditions likely to come into effect in Q4 2012.

However, we recognise that there will be a period before compliant meters are available in volume on the market, and that ahead of this suppliers who wish to install smart meters are doing so at their own risk. We would like to further explore the particular issues that small suppliers may face in rolling out smart meters and whether a possible exemption to the roll-out obligation for small suppliers is a sensible approach.

Options for supporting small suppliers

We are considering whether an exemption is merited in relation to the roll-out obligation for small suppliers. If there is sufficient justification, then the scope of the exemption might be described in the following way. We believe this approach would balance the risks set out above, against the potential difficulties that consumers might face if we have too wide an exemption. We would be grateful for comments on this, as well as the case for any variations, including those set out below.

All meters which meet the definition of Advanced Domestic Meter (ADM) set out by OFGEM in August 2011¹ installed by small suppliers [i.e. those with fewer than 250,000 customers] between March 2012 and the technical specifications (SMETS) coming into legal force will be exempt from a requirement to be replaced pursuant to the roll-out obligation, when it is introduced. This would mean that any smart meters installed in this period, where the customer remains with the installing supplier, would not be required to be replaced with a compliant smart meter before the end of its life.

1

We see that there are a number of potential variations on this exemption and would like views and justification as to whether:

- a) *the end date of the exemption should be at some point after SMETS enters in to force – for example, six months after SMETS comes into force;*
- b) *An extension should be granted to the roll-out obligation with respect to the completion date so that small suppliers with customers having ADMs installed during the exemption period should be required to replace these with compliant smart meters by a set date (for example, 2024), rather than waiting until the end of the meter's life;*
- c) *the exemption should continue to apply in respect of a meter even if the customer switches supplier;*
- d) *we should specify certain types of meter or functionality that would be covered by the exemption, rather than a blanket exemption for all ADMs (except in the case of c); or*
- e) *ADMs installed by small suppliers before March 2012 should also be exempted.*

Next steps

The Smart Meters Programme would like to hear the views of interested parties on the issues set out in this letter.

As a first step, we would like to gather further evidence, in response to the questions in Annex A, by **13 January 2012**. We would also welcome views on the policy proposal set out above, by **27 January 2012**. Questions are set out at Annex B.

I would be grateful if you could send responses to Antonia Burbidge (Antonia.Burbidge@decc.gsi.gov.uk, 0300 068 6591).

The Programme will publish its final view on an exemption in the response to the rollout consultation in Spring 2012.

Yours faithfully,

CHARLES HENDRY

EVIDENCE ON INSTALLATION OF SMART METERS

Please send your comments to Antonia.Burbidge@decc.gsi.gov.uk by 13 January 2012

1. How many meters with smart functionality have you installed so far?

[to the nearest 1000 for gas and electricity]

2. How many do you plan to install before:
 - a. March 2012
 - b. July 2012
 - c. the end of 2012
 - d. the end of the Foundation Stage in 2014?

[to the nearest 1000]

3. What types of smart meters are you installing/have you installed to date?
 - a. Please list the number of meters for each make / model type
 - b. What is the difference between the functionality in these meters and the Industry Draft Technical Specifications (e.g. how many months' data storage, last gasp)?
 - c. What communications technology are they using?
 - d. How are consumers able to access their energy consumption data?
 - e. Do the meters have prepayment functionality?
4. How long do you assume the economic lifetime of these meters is?
5. Have you purchased these meters or are you renting them?
 - a. If you are leasing equipment, can you provide information on the rental terms?

QUESTIONS RELATING TO THE POLICY PROPOSAL

Please send your comments to Antonia.Burbidge@decc.gsi.gov.uk by 27 January 2012

1. What are your views of the policy proposal set out in the letter?
2. Do you agree that an exemption is needed for small suppliers?
3. If you are a small supplier – what are the specific challenges that you are facing currently?
4. What do you see as the potential impacts of an exemption and why?
 - a. On roll out by the completion date?
 - b. On roll out between now and 2014?
 - c. On consumers?
5. What are your views on the potential scope and duration of a possible exemption set out below?

All meters which meet the definition of Advanced Domestic Meter (ADM) set out by OFGEM in August 2011² installed by small suppliers [i.e. those with fewer than 250,000 customers] between March 2012 and SMETS coming into legal force will be exempt from a requirement to be replaced pursuant to the roll-out obligation, when it is introduced. This would mean that any smart meters installed in this period where the customer remains with the installing supplier would not be required to be replaced with a compliant smart meter before the end of its certified life.

6. Do you have any particular views or justification on any of the options set out below?
 - a) *the end date of the exemption should be at some point after SMETS enters in to force – for example, six months after SMETS comes into force;*
 - b) *An extension should be granted to the roll out obligation with respect to the completion date so that small suppliers with customers having ADMs installed*

2

during the exemption period, should be required to replace these with compliant smart meters by a set date (for example, 2024), rather than waiting until the end of the meter's life;

- c) the exemption should continue to apply in respect of a meter even if the customer switches supplier;*
- d) we should specify certain types of meter or functionality that would be covered by the exemption, rather than a blanket exemption for all ADMs (except in the case of c)); or*
- e) ADMs installed by small suppliers before March 2012 should also be exempted*