



Gas and electricity supply licence holders, Ofgem and other interested parties

16th November 2016

Dear Colleagues,

BEIS open letter consultation on removing the Early Rollout Obligation

This is an open letter consultation on removing the Early Rollout Obligation (ERO). This letter is an extension of previous consultation with stakeholders on this issue as part of the Smart Metering Delivery Group and through bilateral meetings with SEC parties.

Background

The ERO was confirmed in July 2015 as part of the Rollout Strategy¹. The ERO requires qualifying large energy suppliers² to install and enrol with the Data Communications Company (DCC) SMETS2³ smart metering systems to (the lower of) 1500 or 0.025% of their customer base by six months after the date at which the DCC goes live. The date specified in gas and electricity Supply Licence Conditions for compliance is 17th February 2017, though these Licence Conditions enable the Secretary of State to set a later deadline by issuing a direction⁴.

The primary aim of the ERO was to expedite the procurement of SMETS2 meters following evidence that progress in this area was slow. It also sought to provide greater confidence that all large suppliers will be installing, commissioning and enrolling SMETS2 meters as soon as possible after DCC Live, reinforcing the drivers in place to complete testing in an efficient manner.

Proposal

BEIS propose to modify the relevant licence conditions to remove the Early Rollout Obligation. A tracked amended version of relevant extracts of the gas and electricity Supply Licence Conditions is attached at **Annex 1**⁵.

¹ <https://www.gov.uk/government/consultations/smart-metering-rollout-strategy>

² All suppliers with more than 250,000 domestic customers as at 15 February 2015 must comply with the ERO. The level of the ERO will depend on the number of domestic and non-domestic premises supplied.

³ SMETS2 meters are those compliant with the second version of the Smart Metering Equipment Technical Specifications. The latest version is in schedule 9 of the SEC 5.0 published on 9 November 2016:

<https://www.smartenergycodecompany.co.uk/sec/sec-and-guidance-documents>

⁴ The Programme SRO has previously issued (30 September 2016) a minded-to statement that the ERO and DCC large user mandate should retain a compliance date at 6 months after DCC live.

⁵ The latest Electricity and Gas standard supply Licence are published by Ofgem on their public register: <https://epr.ofgem.gov.uk/Document>



Consideration

Supplier progress

Our assessment is that there is now a well-developed market for the supply of SMETS2 meters with all qualifying large suppliers having now substantially secured their (initial) procurement of SMETS2 meters. All such suppliers are actively pursuing their enduring arrangements for SMETS2 meter procurements. Evidence on this is commercially sensitive and shared as part of BEIS routine stakeholder outreach. On this evidence, our overall assessment is that the ERO has been effective and has largely achieved its intent. We are also assured that supplier testing of the DCC solution with their own systems is progressing with all qualifying larger energy suppliers currently engaged or having completed User Entry Process Testing with the DCC. A number of suppliers have completed and are now actively engaged in end to end testing with their own SMETS2 metering devices.

New risks associated with the ERO

A number of qualifying energy suppliers have indicated that, in order to install the number of SMETS2 meters required by an ERO six months after DCC live, they would have to employ strategies that would impede their progress towards the remaining 2020 obligation, could increase costs, and which could be detrimental to the customer experience.

Other options

The main alternative to removing the ERO would be to set a later compliance date. The existing Licence Conditions enable the Secretary of State to set a later date by issuing a direction. Extending the ERO would be administratively simple and quick to achieve. However, pushing back the ERO would leave in place a regulation which is arguably superfluous and good regulatory practice suggests we should remove it.

Conclusion

We believe that there are sufficient commercial and regulatory incentives on qualifying large energy suppliers to drive the right behaviours, including the timely deployment of SMETS2 meters. For example, in support of the 2020 rollout deadline the SMETS1 end date already provides a milestone by which suppliers will need to be prepared to undertake SMETS2 deployment at scale, whilst the DCC large user mandate⁶ will remain a helpful incentive on suppliers to use the DCC early on.

More broadly, the significant progress made by qualifying energy suppliers on SMETS2 procurements and system testing provides us confidence that the ERO has served its purpose.

Removing the ERO trades-off certainty on when SMETS2 metering systems will be initially installed, commissioned and enrolled against providing suppliers the trust and flexibility to plan their deployments in a way which is cost effective and avoids nugatory and potentially detrimental actions. On balance we view removing the ERO as the best option for consumers and the Programme.

Consultation

1	Do you agree that Government should remove the Early Rollout Obligation?
2	Do you have any comments on the proposed modifications to the relevant licence conditions that would implement the removal of the Early Rollout Obligation?

⁶ Suppliers were required to become DCC users in order to meet the ERO. However, the same risks articulated here for the ERO do not exist for the large user mandate and it will be retained:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/522006/16_05_10_May_2016_SEC_Government_Response_final.pdf



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Please send responses to Smartmetering@beis.gov.uk. The closing date for responses is **5pm Wednesday 23rd November⁷**.

Next Steps

If Government were to remove the ERO, this would be delivered through the use of section 88 of the 2008 Energy Act to modify the relevant gas and electricity Supply Licence Conditions. The use of the powers in section 88 requires the licence modifications to be laid before Parliament. We would issue a summary of consultation responses and publish a Government response document in advance of this.

Yours faithfully,

Daron Walker
Senior Responsible Owner
Smart Metering Implementation Programme

⁷ Information provided in response to this consultation, including personal information, may be subject to publication or release to other parties or to disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004). BEIS intends to publish a summary of responses to this consultation on its website. If you want information, including personal data that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. It would be helpful if you could explain why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the department.



STANDARD SUPPLY LICENCES – MODIFICATIONS IMPLEMENTING A REMOVAL OF THE EARLY ROLLOUT OBLIGATION

ELECTRICITY LICENCE

Condition 54. Enrolment of Smart Metering Systems

Application

- 54.1 This condition takes effect from the date on which Electricity Meters are first capable of being Commissioned under the Smart Energy Code.
- 54.2 Where on the date this condition takes effect:
- (a) the licensee is a DCC User, the condition applies to the licensee from the date the condition takes effect;
 - (b) the licensee is not a DCC User, the condition applies to the licensee from the date the licensee becomes a DCC User.

Part A: Enrolment Duty –General

- 54.3 Paragraph 54.4 applies in respect of any Domestic Premises at which:
- (a) the licensee is the Relevant Electricity Supplier; and
 - (b) there is a Smart Metering System that includes a Communications Hub,
- (the **relevant premises**).
- 54.4 Where this paragraph applies:
- (a) the licensee must take all reasonable steps to ensure that the Electricity Meter that forms part of the Smart Metering System at the relevant premises is Commissioned; and
 - (b) following the time at which such Electricity Meter is first Commissioned and while there is a supply of electricity to the premises, the licensee shall take all reasonable



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steps to ensure that the Smart Metering System of which the Electricity Meter (or any replacement Electricity Meter) forms part is Enrolled.

Part B: Enrolment Duty — Large Energy Supplier

~~54.5 — Paragraph 54.6 applies where, on 15 February 2015, the licensee supplied (whether with electricity, or gas, or both) at least 250,000 Domestic Energy Premises.~~

~~54.6 — Where this paragraph applies the licensee must take all reasonable steps to ensure that the number of Energy Smart Metering Systems:~~

~~(a) — installed by it at Domestic Energy Premises or Designated Energy Premises; and~~

~~(b) — Enrolled,~~

~~is, by no later than by 17 February 2017 (or such later date as may be specified in a direction issued by the Secretary of State under this paragraph), at least equal to the Minimum Number.~~

Interpretation of Part B

~~54.7 — For the purposes of paragraphs 54.5 and 54.6 (and, where the context requires, the defined terms used in paragraphs 54.5 and 54.6), where there are any Affiliate Licensees, the licensee and all Affiliate Licensees are treated as one licensee.~~

Definitions

54.85 In this Condition:

Commissioned has the meaning given to it from time to time in the Smart Energy Code.

DCC User means a User in the User Role of Import Supplier (where 'User', 'User Role' and 'Import Supplier' all have the meanings given to them from time to time in the Smart Energy Code).

Domestic Energy Premises means premises which:
~~(a) — with respect to the supply of electricity, are Domestic Premises; or~~



~~(b) with respect to the supply of gas, satisfy the definition of 'Domestic Premises' at standard condition 6 of the Gas Supply Licence.~~

**Designated Energy
Premises**

means premises which:

~~(a) with respect to the supply of electricity, are Designated Premises; or~~

~~(b) with respect to the supply of gas, satisfy the definition of 'Designated Premises' in standard condition 1 of the Gas Supply Licence.~~

**Energy Smart Metering
System**

means a system which:

~~(a) with respect to the supply of electricity, is a Smart Metering System that meets the requirements of a version, other than the first version, of the SME Technical Specification; and~~

~~(b) with respect to the supply of gas, is a system that:~~

~~(i) satisfies the definition of 'Smart Metering System' in standard condition 1 of the Gas Supply Licence; and~~

~~(ii) meets the requirements of a version, other than the first version, of the document that satisfies the definition of 'SME Technical Specification' in standard condition 1 of the Gas Supply Licence.~~

Enrolled

means Enrolled under and as described in the Smart



Energy Code.

**Licensee's Relevant
Energy Premises**

means:

~~(a) each Domestic Energy Premises and Designated Energy Premises in respect of which the licensee is, in respect of the supply of electricity, the Relevant Electricity Supplier on the Relevant Date; and~~

~~(b) each Domestic Energy Premises and Designated Energy Premises in respect of which the licensee is, in respect of the supply of gas, the Relevant Gas Supplier on the Relevant Date,~~

~~but shall not include any such premises in respect of which the licensee is:~~

~~(c) in respect of the supply of electricity, subject to an exception set out in Part A of standard condition 39 (Smart Metering System Roll-out, Installation and Maintenance); or~~

~~(d) in respect of the supply of gas, subject to an exception set out in Part A of standard condition 33 of a Gas Supply Licence held by the licensee.~~

Minimum Number

means:

~~(a) 1500; or~~

~~(b) 0.025% of the total number of the Licensee's Relevant Energy Premises,~~

~~whichever is the lower.~~

Relevant Date

~~means the date on which the licensee first becomes a User in the User Role of either Import Supplier or Gas Supplier (where 'User', 'User Role', 'Import~~



~~Supplier' and 'Gas Supplier' all have the meanings given to them from time to time in the Smart Energy Code).~~

~~**Relevant Gas Supplier** has the meaning given to it in standard condition 1 of the Gas Supply Licence.~~

GAS LICENCE

Condition 48. Enrolment of Smart Metering Systems

Application

- 48.1 This condition takes effect from the date on which Gas Meters are first capable of being Commissioned under the Smart Energy Code.
- 48.2 Where on the date this condition takes effect:
- (a) the licensee is a DCC User, the condition applies to the licensee from the date the condition takes effect;
 - (b) the licensee is not a DCC User, the condition applies to the licensee from the date the licensee becomes a DCC User.

~~Part A: Enrolment Duty – General~~

- 48.3 Paragraph 48.4 applies in respect of any Domestic Premises at which:
- (a) the licensee is the Relevant Gas Supplier; and
 - (b) there is a Smart Metering System that includes a Communications Hub,

(the **relevant premises**).
- 48.4 Where this paragraph applies:
- (a) the licensee must take all reasonable steps to ensure that the Gas Meter and the Gas Proxy Function that form part of the Smart Metering System at the relevant premises are Commissioned; and



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- (b) following the time at which such Gas Meter and the Gas Proxy Function are first Commissioned and while there is a supply of gas to the premises, the licensee shall take all reasonable steps to ensure that the Smart Metering System of which the Gas Meter and Gas Proxy Function (or any replacement Gas Meter or Gas Proxy Function) form part are Enrolled.

Part B: Enrolment Duty—Large Energy Supplier

~~48.5—Paragraph 48.6 applies where, on 15 February 2015, the licensee supplied (whether with gas, or electricity, or both) at least 250,000 Domestic Energy Premises.~~

~~48.6—Where this paragraph applies the licensee must take all reasonable steps to ensure that the number of Energy Smart Metering Systems:~~

- ~~(a)—installed by it at Domestic Energy Premises or Designated Energy Premises; and~~
- ~~(b)—Enrolled;~~

~~is, by no later than by 17 February 2017 (or such later date as may be specified in a direction issued by the Secretary of State under this paragraph), at least equal to the Minimum Number.~~

Interpretation of Part B

~~48.7—For the purposes of paragraphs 48.5 and 48.6 (and, where the context requires, the defined terms used in paragraphs 48.5 and 48.6), where there are any Affiliate Licensees, the licensee and all Affiliate Licensees are treated as one licensee~~

Definitions

~~48.8~~48.5 In this Condition:

Commissioned	has the meaning given to it from time to time in the Smart Energy Code.
DCC User	means a User in the User Role of Gas Supplier (where 'User', 'User Role' and 'Gas Supplier' all have the meanings given to them from time to time in the Smart Energy Code).
Domestic Energy	means premises which:



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Premises

~~(a) with respect to the supply of gas, are Domestic Premises; or~~

~~(b) with respect to the supply of electricity, satisfy the definition of 'Domestic Premises' at standard condition 6 of the Electricity Supply Licence.~~

Designated Energy Premises

means premises which:

~~(a) with respect to the supply of gas, are Designated Premises; or~~

~~(b) with respect to the supply of electricity, satisfy the definition of 'Designated Premises' in standard condition 1 of the Electricity Supply Licence.~~

Energy Smart Metering System

means a system which:

~~(a) with respect to the supply of gas, is a Smart Metering System that meets the requirements of a version, other than the first version, of the SME Technical Specification; and~~

~~(b) with respect to the supply of electricity, is a system that:~~

~~(i) satisfies the definition of 'Smart Metering System' in standard condition 1 of the Electricity Supply Licence; and~~

~~(ii) meets the requirements of a version, other than the first version, of the document that satisfies the definition of 'SME Technical Specification' in standard condition 1 of the Electricity Supply Licence.~~

Enrolled

means Enrolled under and as described in the Smart Energy Code.

Gas Proxy Function

has the meaning given to that expression in the CH Technical Specification.



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**Licensee's Relevant
Energy Premises**

means:

- ~~(a) each Domestic Energy Premises and Designated Energy Premises in respect of which the licensee is, in respect of the supply of gas, the Relevant Gas Supplier on the Relevant Date; and~~
- ~~(b) each Domestic Energy Premises and Designated Energy Premises in respect of which the licensee is, in respect of the supply of electricity, the Relevant Electricity Supplier on the Relevant Date;~~

~~but shall not include any such premises in respect of which the licensee is:~~

- ~~(c) in respect of the supply of gas, subject to an exception set out in Part A of standard condition 33 (Smart Metering System Roll-out, Installation and Maintenance); or~~
- ~~(d) in respect of the supply of electricity, subject to an exception set out in Part A of standard condition 39 of an Electricity Supply Licence held by the licensee.~~

Minimum Number

means:

- ~~(a) 1500; or~~
- ~~(b) 0.025% of the total number of the Licensee's Relevant Energy Premises,~~

~~whichever is the lower.~~

Relevant Date

~~means the date on which the licensee first becomes a User in the User Role of either Gas Supplier or Import Supplier (where 'User', 'User Role', 'Gas Supplier' and 'Import Supplier' all have the meanings given to them from time to time in the Smart Energy Code).~~

**Relevant Electricity
Supplier**

~~has the meaning given to it in standard condition 1 of the Electricity Supply Licence.~~