



Department for
Business, Energy
& Industrial Strategy

SMART METERING IMPLEMENTATION PROGRAMME

Consultation on the operational transition of
smart meters, including draft legal text



October 2017

Consultation on the operational transition of smart meters, including draft legal text

The consultation can be found on GOV.UK:

<https://www.gov.uk/government/consultations/the-operational-transition-of-smart-meters-including-draft-legal-text>

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Any enquiries regarding this publication should be sent to us at smartmetering@beis.gov.uk.

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General information

Purpose of this consultation

This consultation seeks stakeholders' views on proposals to aid operational planning for the transition from SMETS1 to SMETS2 metering.

Issued: 16 October 2017

Respond by: 5pm on 10 November 2017

Enquiries to: smartmetering@beis.gov.uk

Smart Metering Implementation Programme - Policy and Consumers Team
Department for Business, Energy & Industrial Strategy,
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Territorial extent:

This consultation applies to the gas and electricity markets in Great Britain. Responsibility for energy markets in Northern Ireland lies with the Northern Ireland Executive's Department of Enterprise, Trade and Investment.

How to respond

Your response will be most useful if it is framed in direct response to the questions posed, by reference to our numbering, though further comments and evidence are also welcome.

Responses should be submitted by email to smartmetering@beis.gov.uk and hardcopy responses sent to the BEIS postal address above will also be accepted.

Additional copies:

You may make copies of this document without seeking permission. An electronic version can be found at GOV.UK: <https://www.gov.uk/government/consultations/the-operational-transition-of-smart-meters-including-draft-legal-text>

Other versions of the document in Braille, large print or audio-cassette are available on request. This includes a Welsh version. Please contact us under the above details to request alternative versions.

Confidentiality and data protection

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. It would be helpful if you could explain to us 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 by us as a confidentiality request.

We will summarise all responses and place this summary on the [GOV.UK website](#). This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the [Government's Consultation Principles](#).

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

BEIS Consultation Co-ordinator
1 Victoria Street,
London, SW1H 0ET
Email: enquiries@beis.gov.uk

1. Executive Summary

1. Smart meters are the next generation of gas and electricity meters. They will offer a range of intelligent functions and provide consumers with more accurate information, bringing an end to estimated billing. Consumers will have near real-time information on their energy consumption to help them control and manage their energy use, save money and reduce emissions. The Government is committed to ensuring that every home and smaller business in the country is offered a smart meter by the end of 2020. The roll-out of smart meters is an important national modernisation programme that will bring major benefits to businesses and the nation as a whole.
2. The Government response to the Rollout Strategy consultation published in July 2015¹ set out a number of milestones intended to drive the deployment of devices that meet the requirements of the second version of the Smart Metering Equipment Technical Specification (SMETS2). These milestones included an end date for installation of meters which meet the first version of that specification (SMETS1), after which they would no longer count towards a supplier's rollout obligation.
3. The date after which any SMETS1 meters installed in premises will no longer count towards a supplier's rollout obligation ('the SMETS1 end date') is intended to incentivise the transition to SMETS2 meters. The SMETS1 end date, which is currently expected to be 13 July 2018, has been important in driving energy suppliers to make the transition to SMETS2 meters. However, even for those energy suppliers who have made every effort to plan their transition carefully, operational risks are likely to arise ahead of the end date. These are particularly due to the imperfect prediction of the speed of transition and suppliers needing to place their final orders for SMETS1 meters 6 to 9 months ahead of the end date. If, for example, testing of SMETS2 meters runs late for a specific supplier, then that supplier runs the risk that, after the end date, its installers have insufficient SMETS2 meters to work at full productivity, leading to inefficient roll-out deployment. Conversely, if the supplier's testing runs to plan and it has not estimated its operational productivity sufficiently accurately, then it could find itself holding SMETS1 meters after the end date that it could not deploy, leading to these assets being unnecessarily written off.

¹ See:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/450167/Smart_Meters_Rollout_Strategy_Government_response_FINAL.pdf

4. In recognition of these risks, the Government is consulting on proposals which include supplier derogations from the SMETS1 end date. Such derogations would be available to suppliers who meet a set of eligibility and evidence criteria, which are set out later in this document.

2. Introduction

Smart Metering Implementation Programme

5. The Government is committed to ensuring that smart meters will be offered to every home and smaller business by the end of 2020. Energy suppliers are responsible, under standard conditions of electricity and gas supply licences ('supply licence conditions'),² for taking all reasonable steps to roll out smart meters to all domestic and smaller business premises in Great Britain. The Government's role is to provide the right framework against which energy suppliers can plan, and to ensure benefits are delivered to consumers.
6. An updated Cost Benefit Analysis of Smart Metering was published in November 2016. This estimated the costs and benefits associated with the national roll-out of smart meters and identified a substantial net benefit from the Programme of £5.7 billion for the period to 2030.³

Background to SMETS1 policy

7. The roll-out of smart meters in Great Britain is happening in two stages - the Foundation Stage, which began in 2011, followed by the Main Installation Stage, which commenced in November 2016 and will run until the completion of the rollout at the end of 2020.
8. A number of energy suppliers are installing first-generation (SMETS1) smart meters for their customers during the Foundation Stage, using their own communications systems to provide smart services. These meters provide the same benefits as SMETS2 meters, in terms of accurate bills and near real-time energy consumption information. Smart meters installed during the Foundation Stage have enabled consumers to have these benefits early. They have also given energy suppliers valuable experience and the opportunity to build their own capability. However, while SMETS1 meters operate outside the DCC's systems, consumers may lose smart services on switching. SMETS2 provides an enduring solution and delivers interoperability and direct access to new DCC-based services.
9. Our overall aim is that smart functionality is always retained when a customer switches supplier. DCC has been asked to progress the design of a SMETS1 service that can allow

² See: <https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

³ See: <https://www.gov.uk/government/publications/smart-meter-roll-out-gb-cost-benefit-analysis>

for this, and to report progress to BEIS. BEIS will take overall decisions on whether SMETS1 enrolment capability should be provided, informed by the outcomes of DCC design work and a cost benefit analysis. This project should allow for SMETS1 meters that have lost functionality where they have churned between suppliers to re-establish communications and smart benefits. Ahead of that, there are some industry initiatives aiming to link up SMETS1 systems so that a greater proportion of consumers with first-generation meters will be able to retain their smart service when they switch energy supplier.

10. SMETS2 devices offer greater benefits, primarily because they utilise the national smart metering infrastructure run by DCC. In particular, consumers will retain smart functionality when they switch supplier. Furthermore, Distribution Network Operators (DNOs) will have access to smart metering data, via the DCC's systems, which will provide opportunities for them to make more efficient network investments⁴. Data access for third parties is an additional benefit. It is therefore the Government's position that industry should transition away from SMETS1 to SMETS2 meters as soon as possible.
11. While the Government expects all suppliers to work towards meeting the SMETS1 end date, there is evidence that some suppliers, despite having credible plans to transition from SMETS1 to SMETS2 and having taken proportionate steps to mitigate their transition risks, will not likely be able to do so by 13 July 2018 without incurring significant cost.
12. There is a balance to be struck in terms of the consumer impact. Inefficiency in the roll-out could negatively affect consumers through increased costs and lack of meter availability following the SMETS1 end date. However, the Government is also mindful of the need to transition to SMETS2 meters at pace, given the additional benefits they deliver for both consumers and the energy system.
13. In light of this, the Government has examined options to help mitigate suppliers' risks and manage impacts on consumers by potentially providing eligible suppliers with some flexibility, while remaining committed to the SMETS1 end date and a transition to the installation of SMETS2 meters only, as soon as possible. Consumer awareness of smart metering continues to increase and we recognise that it is important to have a clear cut-off point for the installation of SMETS1 meters to simplify messages and advice to consumers.

⁴ Access to smart metering consumption data is governed by the Smart Metering Data Access and Privacy Framework

Content of this consultation

14. This consultation consists of sections as follows:
 - SMETS1 end date update;
 - Options for mitigating planning and procurement risks and possible inefficiencies in roll-out while suppliers transition from SMETS1 to SMETS2;
 - Proposed criteria for assessing derogation applications;
 - Summary of the draft legal text required to implement flexibility around compliance with the SMETS1 end date;

15. Where appropriate these sections are followed by a set of consultation questions. Two annexes are published alongside this document:
 - Annex A (published with this document) sets out draft legal text which would amend the SEC to implement Government's proposed approach;
 - Annex B (published with this document) contains a letter from the Programme's Senior Responsible Owner (SRO) referenced in this consultation document dated 11 August 2017.

16. Every effort has been made to ensure that the explanatory text in the main body of this consultation document reflects the legal drafting in Annex A. We have also sought to ensure that the explanatory text provides a clear and simplified overview of our proposals however, the legal drafting should be considered to be definitive in the event that there is an inconsistency between this and the explanatory text.

17. The Government response to this consultation will be published once the responses received have been analysed. We will also lay the final draft legal text before Parliament with a view to implementing the concluded policy proposals thereafter.

3. SMETS1 End Date

Description of the issue and Government position

18. The Government Response to the Rollout Strategy published in July 2015 set out our approach to the SMETS1 end date. As the DCC phased releases have occurred, we have updated stakeholders on the timing of this milestone. Our position has been updated since the publication of the Rollout Strategy, and the SMETS1 end date should now fall 13 months from the availability of end-to-end testing of the full range of DCC service requests.
19. The most recent update on the SMETS1 end date was contained in a letter from the Programme's SRO to Smart Energy Code (SEC) parties, dated 11 August 2017, attached at Annex B. The letter confirmed that we would expect the SMETS1 end date to change only in the event that there was evidence of significant industry-wide impediments to the transition to SMETS2 meters. The SMETS1 end date will be kept under review until January 2018 but we would not expect to vary it after that date.
20. The purpose of this consultation is to deal with potential operational risks faced by suppliers currently deploying significant quantities of SMETS1 meters while they are transitioning to the installation of SMETS2 meters only, and also manage negative consumer impacts caused by an inefficiency in roll-out and increased costs. We expect these risks to be managed by suppliers, as opposed to industry- or system-wide impediments that would affect all suppliers' abilities to transition from SMETS1 to SMETS2 meters and trigger consideration of whether to extend the SMETS1 end date.
21. With that in mind, this consultation does not consider a change to the SMETS1 end date itself. Instead, it sets out options to assist in the mitigation of risks faced by suppliers in complying with the SMETS1 end date as currently defined, while ensuring transition to SMETS2 meters as soon as possible. These options apply to SMETS1 meters installed at both domestic and non-domestic premises.
22. The options set out in this document do not affect the deadline for so-called "SMETS1 capable" meters to be made compliant if they are to count towards energy suppliers' roll-out obligations. We therefore expect suppliers to ensure that SMETS1 meters are made compliant by the end date, currently 13 July 2018. Government is separately considering the treatment of SMETS1 capable meters gained after the SMETS1 end date that have not been made compliant prior to the SMETS1 end date due to another supplier's failure to meet their obligation.

4. Policy Options

Description of the issue

23. As of 30 June 2017, ⁵ large energy suppliers were operating 6.66 million meters in smart mode in domestic premises across Great Britain, and 594,500 (55,700 gas and 538,700 electricity) non-domestic smart and advanced meters. This represents around 14 per cent of all domestic meters, and almost one quarter of all non-domestic meters currently operated by large energy suppliers.
24. The Government has carefully scrutinised suppliers' roll-out plans. Suppliers with significant SMETS1 deployment programmes run a variety of risks to achieving a full transition from SMETS1 to SMETS2 meter installation by the SMETS1 end date. This consultation document considers options to ease difficulties eligible suppliers may face with planning and procurement ahead of the end date, and to manage the risk of inefficiency in the roll-out after the end date.
25. The Government is seeking views on four options:
- a. **Do nothing** – retain the SMETS1 end date mechanism as it currently stands with no additional flexibility.
 - b. **Proportional post end date SMETS1 installation allowance** – all suppliers would be allowed to install a number of SMETS1 meters after the end date equal to or not greater than the number of SMETS2 meters they have installed before it.
 - c. **A time limited derogation** – suppliers who meet set eligibility and evidence criteria would be allowed to install SMETS1 meters for up to a maximum of 3 additional months after the end date.
 - d. **A quantity and time limited derogation** – suppliers who meet set eligibility and evidence criteria would be allowed to install a limited number of SMETS1 meters up to 6 months after the end date.

⁵ See Smart Meters Quarterly Report for further information:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/640759/2017_Q2_Smart_Meters_Report.pdf

(a) Do Nothing

26. Suppliers currently engaged in significant SMETS1 deployments have plans to transition their operation across to installing only SMETS2 meters by the SMETS1 end date. To avoid an undersupply (and risk of installation inefficiency) or oversupply (and risk of excess stock) of SMETS1 meters, suppliers need to balance the quantity of SMETS1 meters they procure against their plans to transition their supply chain, logistics, field force and business operations over to SMETS2.
27. Given the complexities of the transition activities and the quantity of installations being undertaken, there is a risk that - despite taking proportionate mitigating actions - some suppliers will have to reduce installation activity as they transition from SMETS1 to SMETS2 in 2018. This could mean suppliers incurring costs from under-utilised or idle installers, or unused SMETS1 meters, and these may ultimately be passed on to energy bill-payers. It could also result in potential consumer disengagement if consumers are unable to receive a smart meter upon request; as a result of any reduction in rollout activity.
28. These disadvantages need to be balanced against the likely increase in numbers of SMETS1 meters under the proposed options to allow flexibility on compliance with the SMETS1 end date for eligible suppliers. The end of SMETS1 installations and switch to SMETS2 meters will enable more consumers to realise the benefits of interoperability on switching (prior to the enrolment of SMETS1 meters in the DCC's systems) and access new DCC-based services immediately.

(b) Proportional post end date SMETS1 installation allowance

29. This option would allow all energy suppliers to install a number of SMETS1 meters after the SMETS1 end date equivalent to, or not greater than, the number of SMETS2 meters that they installed prior to the SMETS1 end date. Such an approach could further mitigate the risk of inefficient roll-out if suppliers have not completed their transition from SMETS1 to SMETS2, by allowing suppliers to continue to install SMETS1 meters from surplus stock. However, it is likely to be complex for suppliers to plan on this basis as they may not have enough certainty about how many SMETS2 installations they will complete before the end date. Any impediments to the installation of SMETS2 meters that suppliers encounter in the period up to the SMETS1 end date will limit the flexibility of this option.
30. Implementation of this option would require changes to supply licences and to the SEC. The Government is not minded to take this option forward. While it could further mitigate the risk of a disruption to the roll-out to an extent, in our view it does not provide sufficient flexibility or certainty and still risks inefficiency and associated potential for consumer detriment as per options (c) and (d) below.

(c) Time limited derogation

31. This option would allow energy suppliers to apply to BEIS for a derogation from the SMETS1 end date to give them up to a further 3 months to continue SMETS1 installations. Eligible energy suppliers would be able to use the time to benefit from additional flexibility

for planning and procurement purposes, and reduce the risk of a reduction in the roll-out and the impact that would have on costs and consumers.

32. The Government would consider granting a derogation only in circumstances where a supplier had met specified eligibility criteria. Details of the proposed derogation criteria and process are set out below. As with all the options that provide flexibility, there is a risk with this approach that suppliers would re-profile their plans in a way that simply creates a reduction in the roll-out at a later date. However, we would expect suppliers to provide appropriate evidence of having credible plans in place to transition to SMETS2 through the derogation application process.

The Government considers a maximum of 3 months' extra time to be the right balance between allowing eligible suppliers additional operational flexibility and ensuring a timely transition to SMETS2 meters only. We note that the number of additional SMETS1 installations compared to a 'do nothing' option is expected to be smaller under a derogation process than if the end date were simply shifted for all suppliers, as we do not expect all suppliers to apply, or be eligible, for a derogation.

(d) Quantity and time limited derogation

33. This option would allow suppliers to bid to install up to a set number of SMETS1 meters for up to 6 months after the SMETS1 end date. Such a quantity limited derogation would provide suppliers with procurement headroom to manage their transition risk. Suppliers would also be able to plan how they reduce SMETS1 installations within the 6-month window to suit their individual planning purposes. There is a risk that this approach could still be inefficient if the allowance was set too low. However, this approach would provide flexibility for eligible suppliers, and certainty for Government on additional numbers of SMETS1 meters, while continuing to incentivise a move to SMETS2-only installations.
34. As with a time limited derogation (option (c) above), increases in SMETS1 installations are expected to be smaller under a derogation process than if the end date were simply moved for all suppliers, as we do not expect all suppliers to apply, or be eligible, for a derogation.
35. The Government has also considered a quantity allowance without a time cap. We do not consider it would be desirable from either a consumer or a wider industry perspective for suppliers to be installing SMETS1 meters until the end of 2020. In particular, it would add complexity to the process for enrolling SMETS1 meters in the DCC's systems. A 6-month time limit is therefore intended to minimise these impacts.

Government's Proposed Approach

36. The Government is minded to put in place a derogation from the SMETS1 end date based on quantity and with a 6-month time limit (option (d) above). We are proposing to cap the quantity of installations permitted after the SMETS1 end date at a maximum of 70% of a supplier's Q3 2017 SMETS1 installations. To achieve a quantity and time derogation, we would propose to modify the SEC so as to give the Secretary of State a power to grant a derogation, with flexibility to set timing, quantity, eligibility and evidence criteria outside the SEC, and to request additional information or attach conditions to any derogations that may be granted.

Consultation Questions

| Derogation from compliance with SMETS1 end date | |
|---|--|
| Q1 | Do you agree that options (b), (c) and (d) would minimise supplier-managed risks and consumer impacts associated with the SMETS1 end date? Please specify which option you think would minimise these to the greatest extent, and explain why. |
| Q2 | Do you agree with the Government's minded-to position of introducing a quantity and time derogation with a 6-month time limit (option (d))? Please give reasons for your answer. |
| Q3 | Do you agree that a cap of 70% of a supplier's SMETS1 installations in Q3 2017 is appropriate in relation to option (d)? Please give reasons for your answer. |

Translation into detailed requirements

Process

37. The proposed derogation application process would be open to all suppliers who are installing a significant quantity⁶ of SMETS1 meters, and may therefore face a material operational and commercial challenge in conducting their transition to SMETS2. BEIS would make available final details of how to apply for a derogation and the criteria that would be used to approve applications when it publishes the Government Response to this consultation, expected to be at the beginning of December 2017. Any derogation process is also expected to open at the beginning of December 2017 and run for 3 weeks, with outcomes informally announced by the end of January. Formally granting a derogation would be subject to the relevant changes to the SEC being made and coming into force, anticipated to be February 2018 subject to parliamentary process.

⁶ Proposed criterion is that the rate of SMETS 1 electricity and gas smart meter deployment per month averaged across July, August and September 2017 exceeds a de minimis threshold of >0.25% of the supplier's total mandated meter portfolio.

38. As already stated, we expect the SMETS1 end date to be 13 July 2018 and this will be confirmed in January 2018. If the SMETS1 end date were to change, depending on the length of the change, we would consider whether the existing derogations granted should be amended or the entire process re-run. BEIS is proposing that copies of derogations granted will be published on the SECAS website. Section 105 of the Utilities Act 2000 prohibits the unauthorised disclosure of information related to a supplier's business that is obtained by BEIS as part of the supplier's application for a derogation, subject to the exceptions to the prohibition in section 105.
39. Ofgem will be responsible for monitoring compliance and enforcement, in line with their enforcement guidelines. BEIS will share relevant information with Ofgem to support these activities.

Proposed Derogation Criteria

Introduction

40. The next section sets out the proposed derogation criteria. The criteria are separated into two parts. The first part looks at whether an applicant is eligible in principle for consideration. Applicants who demonstrate eligibility in the first part can proceed to the second part, which sets out the approval criteria. Applicants for a derogation should be mindful of the following when applying:
- a. If all the criteria are met, the Secretary of State will determine the duration and quantity (if applicable) of any derogation, also taking into account the desire to limit the number of SMETS1 devices installed after the SMETS1 end date.
 - b. The Secretary of State will retain the right to attach conditions to the derogations, for example a requirement for a statement from a suitably competent independent organisation that any SMETS1 devices installed after the end date have been installed in a manner consistent with the terms of the derogation.
 - c. BEIS is not underwriting that a derogation will fully mitigate transition risks; use of additional flexibility lies with the applicant.
 - d. If the SMETS1 end date were to change, depending on the length of the change, BEIS would consider whether the existing derogations granted should be amended or the process re-run.
 - e. Derogations are only applicable for installations of SMETS1 compliant meters.
 - f. Ofgem will be responsible for monitoring compliance and enforcement, in line with their enforcement guidelines. BEIS will share relevant information with Ofgem to support these activities.

Part A: Eligibility criteria - is the applicant eligible in principle for consideration?

41. The table below sets out the first part of the derogation application process. BEIS will provide a pro forma response template with short closed response sections.

| # | Criterion | Rationale | Evidence required (in Nov/Dec application) | Scoring |
|---|---|--|---|---|
| 1 | Applicant is a licensed domestic or non-domestic energy supplier in Great Britain, serving premises | Provisions apply to GB energy suppliers only | Ofgem licence numbers for legal entity or entities applying | Yes - continue No - reject |

| | | | | |
|---|--|---|--|---|
| | within the scope of the Smart Metering Implementation Programme. | | | |
| 2 | Applicant is currently deploying a significant quantity of SMETS1 compliant electricity and gas meters (in proportion to the number of customers it supplies) and can confirm that they will only be deploying meters in scope of the SMETS1 service being progressed by DCC | Energy supplier must have a material operational and commercial ⁷ challenge in conducting a transition at scale; it should be consistent with the meters previously notified to DCC so that they are in scope of enrolment | The rate of SMETS1 electricity and gas smart meter deployment per month averaged across July, August, and September 2017 exceeds a de minimis threshold of >0.25% of energy supplier's total mandated meter portfolio as at the end of September 2017. ⁸ Supplier confirmation that they previously notified the SMETS1 meters | Yes - continue No - reject |

⁷ BEIS considers an operational risk to be a risk that the licensee will fail to continue to be able to rollout smart metering systems at a rate consistent with its rollout plan, and a commercial risk to be a risk that it will be disproportionately expensive for the licensee to continue to meet its rollout plans or that there is a risk of stranding of assets of a material value in order to do so.

⁸ Evidence submitted should be consistent with energy suppliers' quarterly statistical submissions to BEIS.

| | | | | |
|---|---|---|---|---|
| | | | set to be deployed to DCC as part of the IEPFR (Initial Enrolment Project Feasibility Report) | |
| 3 | Applicant is in a position to operate SMETS2 meters | Energy supplier has demonstrated the capabilities needed to operate SMETS2 meters enrolled in DCC's systems | At the point of application, applicant has confirmation from DCC/SECAS that the applicant is a DCC User in the User Role of Gas Supplier and/or Import Supplier (as relevant) with live SMKI (Smart Metering Key Infrastructure) security certificates | Yes - continue No - reject |
| 4 | Applicant has access to deployable SMETS2 meters. | Energy supplier must be well advanced in plans to deploy SMETS2 meters | At the point of application, applicant has confirmation (contract details and link to relevant CPL entry) that it has access to CPA approved SMETS2 electricity and/or gas meters consistent with its planned roll-out of SMETS2, and has placed IHD (In Home Display), PPMID (Pre-payment meter interface device) and Comms Hub orders consistent with its roll-out plans. | Yes - continue No - reject |

42. If an applicant scores “yes” to all sections of Part A then they are eligible and can proceed to the approval criteria. If they answer “no” to any section in Part A then their application is ineligible and will be rejected.

Part B: Approval criteria - should the eligible applicant be granted a derogation?

43. The table below sets out the second part of the derogation application process. BEIS will provide a pro forma response template with open response text boxes with word limits for each section.

| # | Criterion | Rationale | Evidence required (in Nov/Dec application) | Scoring |
|---|--|--|--|---|
| 1 | The eligible applicant has demonstrated a clear plan to complete an effective transition from SMETS1 to SMETS2 by 13 July 2018 | Derogation is designed to mitigate (either wholly or partially) the residual risk of a well-planned transition; rather than to make a transition feasible where it was not previously possible | The applicant to provide evidence of a well-planned and resourced transition which will complete the cutover from SMETS1 to SMETS2 by 13 July 2018, via completion of Annex B pro forma [2500 words maximum] | Pass , if evidence of a clear plan to achieve a successful transition Or fail otherwise |
| 2 | Eligible applicant has taken reasonable steps to mitigate the operational and commercial impacts of transitioning from SMETS1 to SMETS2 electricity and gas meters | The derogation is designed to assist with the residual risks that remain despite the reasonable efforts of the applicant to mitigate them | Explanation of steps taken to mitigate the operational risks of transition [500 words] Explanation of steps taken to mitigate the commercial risks of transition [500 words] | Pass , if evidence shows appropriate actions to mitigate operational and /or commercial impact of transition Or fail otherwise |
| 3 | Material residual risks remain despite reasonable efforts by the applicant to mitigate them that could be relieved in whole or part | Derogation will not be granted if the operational and commercial risks of transition can be | Statement of the principal operational and commercial risks that remain despite mitigating actions and explanation of impact | Pass , if significant residual risks remain |

| # | Criterion | Rationale | Evidence required (in Nov/Dec application) | Scoring |
|---|--|--|---|---|
| | through a derogation | reasonably mitigated otherwise. | <p>[500 words]</p> <p>Cause and quantum of the likely financial impact of the residual risks [250 words]</p> <p>Explanation of how the applicant would use the additional flexibility to reduce these residual risks [500 words]</p> | Or fail otherwise |
| 4 | <p>[If quantity and time based derogation is available, subject to the outcome of the consultation]</p> <p>The derogation quantity requested is proportionate to the level of residual risk, within the quantity cap and will be deployed within 6 months of 13 July 2018.</p> | <p>This criterion is designed to keep additional numbers of SMETS1 meters within bounds, consistent with the policy objective of transitioning to SMETS2 meters as soon as possible</p> <p>Quantity cap is 70% of 3-month SMETS1 deployment quantity for July, August, and September 2017,</p> | <p>Quantity of SMETS1 electricity meters to be deployed after 13 July 2018</p> <p>Quantity of SMETS1 gas meters to be deployed after 13 July 2018</p> <p>Explanation of how the requested quantity is consistent with the risk to be mitigated and will be installed by no later than 13 January 2019. [500 word limit]</p> | <p>Pass, if reasonable, within quantity cap and planned to complete before 13 Jan 2019</p> <p>Or fail otherwise</p> |

| # | Criterion | Rationale | Evidence required (in Nov/Dec application) | Scoring |
|---|---|--|--|---|
| | | installed within 6 months of 13 July 2018. This figure should take into account mitigating action taken. | | |
| 5 | <p>[If time based derogation is available, subject to the outcome of the consultation]</p> <p>The derogation time requested is proportionate to the level of residual risk, up to a maximum of 3 months after 13 July 2018.</p> | <p>Excessive time is counter to the policy objective of transitioning to SMETS2 installations as soon as possible.</p> <p>Time cap is up to 3 additional months.</p> | <p>For information purposes: Quantity of SMETS1 electricity and gas meters to be deployed after 13 July 2018 for each month requested.</p> <p>Number of additional months requested and explanation of how the applicant would use the additional flexibility to reduce residual risks by no later than 13 October 2018.</p> <p>[500 word limit]</p> | <p>Pass, if reasonable, within time limit requested</p> <p>Or fail otherwise</p> |
| 6 | <p>If deemed eligible, how will the applicant demonstrate that they will install SMETS1 devices after the SMETS1 end date in a manner that is consistent with the derogation? [250 words]</p> | | | <p>Pass (if reasonable plans to comply with derogation requirements)</p> <p>Or fail otherwise</p> |

44. If an applicant answers “pass” to all sections of Part B then they will be granted a derogation. If they answer “fail” to any section in Part B then a derogation will not be granted.

Annex to Part B: Transition Plan Pro Forma

45. The draft pro-forma below is proposed to be used for Part B of the derogation application process.

| # | Section | Description | Response (2500 words total across all sections) |
|---|----------|--|---|
| A | Schedule | <p>Provide details of your SMETS 1 to SMETS 2 transition plan as follows:</p> <ul style="list-style-type: none"> - Monthly profile of SMETS 1 and SMETS 2 Credit and Prepayment installations from first SMETS 2 install through to the end of the SMETS 1 to SMETS 2 transition - A plan on a page (up to A3 size) illustrating any necessary IT system functionality drops, End to End testing, phasing of Credit and Prepayment Pilots, key activities and dependencies required to enable you to scale up on SMETS 2 including up-skilling of meter installers, SMETS 2 supply chain, model office operation and transition to Business As Usual (BAU) | |
| B | People | <ul style="list-style-type: none"> - Details of your training approach and curriculum to convert internal and 3rd party field force staff from SMETS 1 technology to | |

| # | Section | Description | Response (2500 words total across all sections) |
|---|---------------------|---|---|
| | | <p>SMETS 2</p> <ul style="list-style-type: none"> - Set out the training schedule and how it will be delivered to up-skill your field force (both internal and 3rd party) to SMETS 2 - Describe how you have the required mentoring and technical support staff in place to transition to SMETS 2 - Details of the training required and plan for your front/back office customer operations staff in order for them to ramp up and transition to SMETS 2 operations at volume | |
| C | Assets | <ul style="list-style-type: none"> - Confirm the contract details for supplies of SMETS 2 electricity and gas meters, IHDs/PPMIDs and DCC comms hubs in quantities and delivery schedules to achieve your 13 July 2018 transition plan - Describe the supply chain and logistics in place to convert your field installation capability from SMETS 1 to SMETS 2 meters | |
| D | Systems & Processes | <ul style="list-style-type: none"> - Confirm implementation into your production environment of all the key IT systems and process changes required to support your transition to SMETS 2 - Set out your approach, plan and progress | |

| # | Section | Description | Response (2500 words total across all sections) |
|---|---------------------------------------|---|---|
| | | <p>so far to complete all necessary End to End testing activities ahead of your SMETS 1 to SMETS 2 transition phases</p> <ul style="list-style-type: none"> - Provide details on the system and process changes and associated testing to incorporate the 3rd party providers (e.g. Field force, DCC adaptor managed service, prepayment service providers) required to effect from SMETS 1 to SMETS 2 transition - Set out your approach and plans to pilot SMETS2 installation in support of your transition from SMETS1 to SMETS2. | |
| E | Business Change and Customer Services | <ul style="list-style-type: none"> - Provide details on your approach to identify, manage and resolve issues arising during the transition - Describe your customer services transition approach and plan to move support from any ring fenced smart operation to the BAU business as SMETS 2 volumes ramp up and your final smart Target Operating Model is adopted - Describe any impacts on your Customers as you transition from SMETS 1 to SMETS 2 (e.g. eligibility changes, different engagement approach, channels and | |

| # | Section | Description | Response (2500 words total across all sections) |
|---|---------|--------------------------------|---|
| | | appointment booking) | |
| F | | Any other relevant information | |

Consultation Questions

| Derogation from compliance with SMETS1 end date | |
|---|---|
| Q5 | Do you have any comments on the proposed derogation criteria? |

5. Summary of Legal Text

| Summary of Legal Text (see Annex A for full version) | |
|--|--|
| A1 | <ul style="list-style-type: none"> Provides definitions for the new terms “Alternative Installation End Date”, “Derogation” and “General Installation End Date” |
| A3 | <ul style="list-style-type: none"> Provides for a variation of the Installation End Date where a Derogation has been granted. |
| A4 | <ul style="list-style-type: none"> Provides for the Secretary of State to grant a Derogation to a Supplier Party subject to a certain set of criteria being met and subject to any conditions which may be attached to the Derogation. Provides for the Secretary of State to publish details regarding the derogation application process. Provides for the derogation process to be run in advance of the modifications to the SEC coming into force. Provides for the Secretary of State to amend the Alternative Installation End Date and conditions of a Derogation. Provides for the Secretary of State to revoke a Derogation. Requires SECAS to publish copies of Derogations granted by the Secretary of State on their website. Provides for any commercially sensitive information to be redacted by BEIS before publication. |

Consultation Questions

| Derogation from compliance with SMETS1 end date | |
|---|---|
| Q6 | Do you agree that the legal drafting in Annex A implements the policy intention? If not please explain why not. |
| Q7 | Do you have any additional comments on the legal drafting? |

6. Timing and next steps

46. Stakeholders and other interested parties are invited to provide their views on the policy options and draft legal text by 5.00pm on 10 November 2017.
47. The Government response to this consultation will be published following analysis of responses and conclusions on the policy options. In parallel with publication of the Government response, the final draft legal text implementing the policy conclusions is planned to be laid before Parliament and come into force in accordance with the procedure set out in section 89 of the Energy Act 2008.

