

# Energy UK Response to BEIS consultation on a Smart Meter Policy Framework post 2020

11 November 2019

## About Energy UK

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering almost all (90%) of both the UK's power generation and energy supply for over 27 million UK homes as well as businesses.

The energy industry invests over £13.1bn annually, delivers around £85.6bn in economic activity through its supply chain and interaction with other sectors, and supports over 764,000 jobs in every corner of the country.

## 1. Introduction

It is widely acknowledged that the UK's success in meeting our ambitions to stop climate change and deliver a net-zero economy by 2050 rests not on any single action, but a range of activities. Smart metering, and the successful completion of the smart metering programme, will be essential if the UK is to get anywhere near that net-zero ambition.

The collaborative efforts of the energy industry, alongside the Smart DCC, the Department of Business, Energy and Industrial Strategy (BEIS), Network Operators, Smart Energy GB (SEGB) and others have contributed to the installation of over 16.5 million smart meters so far. This is a considerable achievement given the context of the rollout being the most complex infrastructure upgrade the energy industry has ever seen – and delivered in the most competitive retail energy market in the world. At the same time energy suppliers are reliant on consumers accepting the offer of a smart meter, as the programme is a voluntary requirement on customers.

It is clear that, despite best efforts, unlocking the interest of a significant number of energy consumers while delivering the overall benefits assumed in the BEIS Cost Benefit Analysis (CBA) is becoming an increasingly difficult task against any timeline.

The difficulties associated with maintaining consumer acceptance of smart meters is central to Energy UK members' views on government's proposals - backed up with independent analysis - and sits at the core of this response.

## 2. Executive Summary

Energy UK and its members remain committed to delivering a successful smart meter rollout, and recognise that the smart programme is the country's first step in preparing our energy infrastructure for the significant changes needed to meet government's net-zero emissions ambition. Energy UK calls on government to make a commitment to ensure all future energy policy decisions are clearly linked to and facilitate delivery of this ambition. The first step must be for government to put in place the necessary regulatory framework to allow timely and cost-efficient delivery of smart meters.

It is the opinion of Energy UK and its members that there is significant evidence to suggest the proposed framework will not allow delivery against the targets set by government. Energy UK notes three key considerations that must be taken into account by the future framework:

- Consumer appetite to proactively seek the installation of a smart meter has plateaued well below the levels previously hoped<sup>1</sup>;
- Instability and uncertainty exist around the central supporting infrastructure required to facilitate and support the rollout; and
- Not all technical solutions required to complete the rollout are available.

Simply implementing hard targets on suppliers, with no corresponding customer obligation, will neither allow for the efficient resolution of these issues, nor will it allow the rollout to be completed in an efficient manner as required by the Default Tariff cap. Indeed, there is the prospect that suppliers will face significant financial penalties for non-compliance of legal obligations as a result of factors outside their control.

Independent analysis undertaken by Frontier Economics indicates that, without any change to the customer obligation, installation levels will fall far short of the 85% minimum required by this framework.

Energy UK suggests a number of proactive policies that government can implement that could drive greater consumer uptake of smart. These policies also pave the way for net-zero targets to be fully realised in wider government policy objectives. Energy UK calls on government to implement these as soon as possible.

Finally, Energy UK is disappointed that BEIS did not issue a formal Call for Evidence ahead of its consultation to support its Post-2020 Policy proposals, given the context of the range of different industries and bodies who are and will be impacted by extension of the rollout.

#### Supporting evidence

As part of its response to this consultation Energy UK has commissioned Frontier Economics to undertake independent analysis (hereafter referred to as 'the Frontier report') on behalf of Energy UK's members to understand the realistic timescales required to deliver the installation of smart meters across Great Britain.

Using the very latest data and experiences of suppliers as they continue to drive smart meter installations, this analysis confirms that:

- under the current rollout approach, which is completely dependent on consumers accepting the offer of a smart meter, at best only 68% of relevant premises are likely to have a smart meter installed by the end of 2024; and
- without the introduction of measures requiring consumers to accept the installation of smart meters, it will not be possible to reach the 85% tolerance-based rollout target in the timescales proposed in this consultation at costs which meet the benefits case.

Energy UK recognises that suppliers have varied customer profiles, business strategies and processes which will influence their individual approaches, performance and ability to deliver against government's ambitious targets under the framework proposed in this consultation. As such, our members will have additional or more specific views on the points below in their own consultation responses.

There is overwhelming consensus amongst Energy UK's members on all of the points raised in this response. Any exceptions are noted where this is not the case

### **3. Principles for new regulation**

Throughout this year, Energy UK and its members have engaged with the government and other stakeholders including Citizens Advice, National Energy Action, Royal Town Planning Institute,

---

<sup>1</sup> *Monthly market research commissioned by Smart Energy GB indicates that levels of customers seeking and accepting a smart meter have stagnated throughout the previous 12 months, in spite of the availability of SMETS2 Meters, which were initially assumed to have had a beneficial effect on customers seeking installations.*

National Infrastructure Commission, and the National Housing Federation on principles that any new regulatory framework must cover.

The new regulatory framework must:

1. Be realistic and achievable.
2. Promote a positive customer experience in a cost-efficient manner.
3. Drive ambition, acknowledging that a two-tier metering system is not sustainable.
4. Be transparent, clear and easy to interpret.
5. Apply to all suppliers on an equal basis, but take into account the fact that suppliers will be at different stages of their rollouts by the end of 2020.
6. Be enduring and not subject to artificial or unrealistic deadlines driven by wide and unfounded assumptions.
7. Be consistent with delivering the overall benefits to GB Plc based on the revised 2019 smart metering impact assessment.
8. Not include hard/absolute targets, which risks increased costs and inefficient delivery alongside negatively impact customer experience as suppliers seek to mitigate regulatory risk, unless supported by a customer mandate to accept smart meters.
9. Acknowledge that, under a voluntary approach, there will always be a cohort of consumers who will either not respond to contacts from their supplier seeking to agree an installation appointment, or never accept a smart meter, regardless of incentives/disincentives on them to accept one.
10. Acknowledge that the vast majority of eligible and willing consumers have already been contacted and offered a smart meter on numerous occasions and that, after 2020, non-smart consumers will be predominantly made up of those who are difficult/refuse to engage or outright rejecters.

Energy UK has made it clear that any new regulatory framework must be supported by proactive, positive and public communication from government, its agencies, quasi-government organisations, charities in receipt of Government grants and consumer groups in order to dispel concerns and drive the positive sentiment needed to provide the consumer reassurance needed to complete the rollout. In addition, Energy UK believes that government should consider the need to create incentives around tariffs, and behavior change, by supporting the delivery of timely charging reform and half hourly settlement, in accordance with Ofgem initiatives.

BEIS has shared the following principles that sit behind its proposals:

1. To encourage consumers to benefit from the rollout of smart meters, including how to use the data from their smart meters;
2. To deliver a market-wide rollout of smart meters as soon as possible, that ensures value for money, and maintains installation quality so that consumers can derive maximum benefit and have a good experience.
3. To normalise smart meters so they are the default meter used in Great Britain; and
4. To give certainty to the whole sector to invest and plan, ahead of and beyond 2020

These two sets of principles will be taken into account and referred to in this response.

#### **4. Responses to consultation questions**

**Q1. Do you agree that there is a need for an overarching obligation for suppliers to continue the rollout of smart meters, in addition to the New and Replacement Obligation (NRO)? Please give reasons for your answer.**

While suppliers have natural incentives to rollout smart meters at pace (related to the cost and inefficiency of running two metering portfolios) Energy UK agrees with BEIS that a New and Replacement Obligation (NRO)-only approach in its current form would not be appropriate to complete the rollout.

The current NRO is an All Reasonable Steps (ARS) obligation with no supporting guidance or indication as to what is assumed to be reasonable circumstances for not fitting a smart meter. While

suppliers have continued to install meters that do not meet the Smart Metering Equipment Technical Specifications (SMETS) as an absolute last resort, this is because either certain meter variants or stable SMETS2 functionality needed to meet both legal and regulatory requirements are not currently available to suppliers. Therefore the NRO cannot be relied upon as the sole legislative or regulatory obligation to complete the rollout of smart meters in the timescales government wants.

Energy UK and its members agree that reliance on the NRO alone will result in the full rollout of smart meters over a considerably longer timeframe than government's initial ambition. While Energy UK has not conducted any in-depth analysis on the likely timescales, it is a sensible assumption that a full rollout of SMETS compliant meters would take at least a further 15-20 years on the basis of an age/certification replacement approach. This assumption is based on the expected certification lifespan of the most recently installed legacy meters, and takes into account legacy meters that are still being installed due to technical constraints prohibiting full roll-out of SMETS meters.

The next consideration is that of costs and overall business efficiency. All suppliers have been forced to make significant financial investments to support the rollout of smart meters, for example in the installation workforce required, the smart metering equipment itself, IT infrastructure, internal systems and processes, and employees. These investments are based on expectations that suppliers will be able to close down systems and processes needed to support large volumes of consumers with legacy metering arrangements. Additionally, there are costs associated with suppliers' continued engagement with government through workshops, industry meetings and reviews in order to deliver a market-wide, customer-friendly roll-out.

It is therefore in suppliers' financial interest to install smart meters at pace. With this in mind, BEIS should note that there are factors in addition to regulatory obligations that give sufficient incentives for suppliers to continue to roll out smart meters as quickly as possible.

**Q2. Do you agree with our conclusion that extending the existing "ARS" obligation would not deliver market-wide rollout in a timely manner consistent with wider Government objectives, in particular the long-term ambition of net zero greenhouse gas emissions by 2050? Please give reasons for your answer.**

In addition to the considerations noted in our response to Question 1, which are also relevant when considering the effectiveness of an ARS approach, Energy UK's members agree in principle with government's conclusion that simply extending the existing ARS obligation would not deliver market-wide rollout in a timely manner.

However, government's proposals fail to recognise that the current ARS obligation is placed on energy suppliers, while the consumer obligation is purely voluntary. While Energy UK members accept that the decision to proceed with an ARS-based obligation on energy suppliers was formed in the early stages of the programme, it is important to note that the government made clear at the same time that the rollout of smart meters should not proceed on an 'at any cost' basis, sending the clear message that factors associated with cost must be a key consideration of any ARS test.

Many energy suppliers firmly believe that ARS continues to play a role in the framework beyond 2020 as it allows innovation in a competitive market where all suppliers operate differently, with different propositions, differing strategies and differing bases of consumers. It also acknowledges that, despite significant efforts having been made to offer and install a smart meter, suppliers are not accountable for the actions or inactions of consumers beyond their control.

An absolute target with no element of ARS retained - as proposed in this consultation - would mean that government policy no longer recognises the current disparity associated with consumers' ability to refuse or not respond to the offer of a smart meter under a programme that is mandatory on suppliers. Under the proposals, suppliers must drive consumers to take-up the offer of a smart meter, regardless of consumers' preferences and suggests that government expects energy suppliers to take steps to install smart meters beyond those that are reasonable. This could profoundly and undesirably impact the Retail Energy Market for years to come, with potentially significant unintended consequences for consumers.

**Q3. The obligation proposes a monitoring framework with binding pre-set annual milestones for four years (from 2021 to 2024). Do you agree with this time period? If not, we would welcome your views on alternative time periods. Please provide evidence to support your answer.**

While Energy UK agrees with the need for an ambitious framework needed to drive the roll-out at speed, Energy UK does not agree that that the annual milestones can be delivered under the current framework in the time period suggested.

The latest insight on consumer attitudes and sentiment towards smart meters published by SEGB, and experiences of energy suppliers over the last 10-12 months, confirms that there has been no improvement in the last 12 months of the percentage of consumers who will definitely proactively request or accept the offer of a smart meter<sup>2</sup>. This is in spite of the significant marketing and awareness efforts of both SEGB and energy suppliers combined.

More alarmingly, the latest SEGB insight shows that 34% of non-smart metered consumers are unlikely to take-up the offer of smart meters or have already refused the offer of them, and that 26% of consumers (a rise of 7% since July 2019) feel more negatively towards smart meters as a result of recalling smart meter related media/PR.

Frontier Economics' recent independent analysis tests the assumptions that have resulted in government's minded-to position set out in the consultation. This analysis uses the very latest information from energy suppliers on their latest performance against their 2019 smart meter forecast submissions to Ofgem (noting that these are just 10-11 months old at the time of writing) and confirms that, based on current performance, coverage of only 54%-68% is likely to be achievable by December 2024 without any significant change to the customer obligation. Further, unless government makes changes to the customer obligation, 85% coverage is unlikely to be achieved until after 2030, whether or not the proposed framework is introduced.

This confirms that under both the current and proposed frameworks, the completion of the smart rollout cannot be met within the tolerances of government's proposals.

While Energy UK and its members recognise the efforts that BEIS has gone through to agree the timescale and approach set out in its proposals, and that many suppliers have previously suggested an additional minimum four-to-five years of unconstrained rollout is required to complete the rollout, these suggestions represented minimum installation levels in comparison to the levels required now, and were made at a point in time when industry did not have a full understanding of the nature and impact of technical delays, or levels of consumer sentiment and acceptance of smart meters.

While suppliers are driving consumer interest through a number of channels, and expect to unlock further interest, it is clear that an effective end date of 2024 without changes to the consumer impetus is not achievable. Considering the unforeseen challenges encountered so far in the programme, and the fact that we have not yet reached a point where all consumers can be deemed eligible for a smart meter installation, it is not realistic for the government to assume that all of the relevant outstanding technical and operational dependencies will be delivered by the end of 2020.

Lastly, Energy UK is surprised that Ofgem has chosen to publish its statutory consultation on the post-2020 smart meter rollout reporting requirements on 1<sup>st</sup> October 2019 at the same time as this consultation. Energy UK believes it would have been prudent to wait for the conclusion of this consultation before consulting on the reporting requirements. Energy UK suggests that BEIS and Ofgem implement a delay to the Ofgem consultation until the BEIS policy consultation is complete.

**Q4. Do you agree with our assessment that an 85% minimum coverage at the end of the framework period is achievable? Please provide evidence to support your answer.**

As noted in our response to question 3 above, there is clear evidence to support our view that, based on current consumer attitudes and perceptions towards smart meters, government's assumption that

---

<sup>2</sup> Smart Energy GB Monthly Data report, September 2019.

85% minimum coverage of smart meters can be achieved is clearly wrong, if a requirement on consumers to accept the installation of a smart meter is not implemented.

As noted within the Frontier Report, the BEIS forecasts underpinning the proposed Framework are based on out-of-date, overly ambitious targets, which have not been adequately adjusted to account for realistic assumptions of future consumer behavior challenges and installation density.

In fact, the forecasts within the consultation do not even accurately forecast coverage expected to be achieved by December 2020 under the existing ARS framework; while BEIS is committed to implementing a framework which explicitly relies on 58% coverage by December 2020, the Frontier report instead forecasts that the coverage that can actually be achieved is around 45%-50% by December 2020. As such, it is inherently dangerous for BEIS to base a future framework on a hard target with an incorrect starting-point.

The Frontier report highlights the risk associated with the proposed framework, whereby suppliers will have to take on more engineers to achieve the required number of installations while installation point density declines, albeit for a limited amount of time. This is an inefficient course of action for suppliers, and one that is not allowed for under the default tariff cap.

Given the conclusions of this assessment, Energy UK considers there to be compelling justification for BEIS to rework the methodology so that it is informed by the most up-to-date data available on what suppliers can realistically achieve. Obligated parties must only be held to achievable and meaningful targets, and anything that BEIS introduces must be evidenced as such.

Energy UK also has significant concerns with the hypothesis that customer uptake will increase exponentially in the absence of any additional policy incentives. Energy UK notes the absence of any confirmed evidence that there will be a voluntary consumer 'Tipping Point', where consumer attitudes shift decisively in favour of smart meters. In particular, Energy UK draws attention to the continued stagnation of consumer attitudes towards seeking a smart meter since the availability of SMETS2<sup>3</sup> has been unlocked. It was widely believed that availability of these meters would create a shift in consumer attitudes towards smart meters, but this is clearly not the case.

Energy UK would like to draw a parallel with the customer attitude towards switching suppliers, which requires less effort and provides more savings than smart meters. Switching has failed to engage the majority of customers in the market. Only 41% of customers have engaged with their suppliers in the last 12 months and 34% of the market have never switched<sup>4</sup>. Furthermore, the increase of engagement has been immaterial year on year, with a c. 4% increase from 2016.

**Q5. Do you agree with the application of permitted tolerance in stages, growing in a straight line to the final year of the monitoring framework? We would welcome your views on alternative methods to apply tolerance around the annual milestones. Please support your answer with relevant information.**

Energy UK has significant concerns regarding the development and application of permitted tolerances, notwithstanding concerns around the overall framework. The tolerance model shared with energy suppliers as part of the ongoing engagement process is clearly flawed and it is disappointing that, despite supplier concerns being accepted as valid concerns by BEIS officials, the only explanation to-date suggests that the flaws are down to 'interpretation'.

While any monitoring framework requires a degree of tolerance, a rising permissiveness of tolerance against annual milestones that have no founding cannot be accepted. Energy suppliers are already seeing a notable deterioration of successful smart meter installation performance against rollout submissions that were made just 10 months ago, and agreeing to tolerance levels of the nature proposed at this stage is just not possible.

The up to date Frontier report indicates that required tolerance rates will need to be well in excess of those forecasted by BEIS.

---

<sup>3</sup> See Research conducted by SEGB on Consumer attitudes towards Smart.

<sup>4</sup> Ofgem's '2018 Consumer Engagement' research

Energy UK believes it would be prudent for BEIS to review and take account of the learnings of the programme to date with respect to tolerance levels, as well as the conclusions of the Frontier Economics analysis, and then reconsider its proposals on tolerance levels. A practical approach at this stage would be to consider implementing 'back-stop' arrangements of leaving the existing ARS approach in place for an additional year. This will allow some certainty for the period in which a new methodology and associated tolerance levels can be tested, and to allow for the implementation of policy proposals suggested in our answer to Question 17.

**Q6. Do you agree that pre-defined annual milestones will facilitate the progress towards rollout completion? Please give reasons for your answer.**

Energy UK and its members do not agree with the hypothesis that simply setting pre-defined annual milestones will lessen the challenge of converting consumers who have either failed to respond to - or refused - a supplier's offer of a smart meter, and therefore milestones will not in themselves facilitate progress towards the completion of the rollout.

While pre-defined targets have provided a focus for suppliers, all suppliers are reporting erosion in the pool of customers accepting a smart meter, as reflected in both SEGB's latest smart metering insight data, and the Frontier report. Energy UK's members unanimously agree that it is impossible to set meaningful or realistic targets for what are regarded as the most difficult consumers to engage with, based on the reality that suppliers have already repeatedly attempted to contact them using a variety of channels.

However, Energy UK recognises the need for continued monitoring, particularly given that new suppliers will be entering the market and should be held to the same standards as suppliers already advanced with their smart meter rollout programmes.

Obligated parties should only be held to account against meaningful targets, and any monitoring framework that BEIS introduces must be evidenced as such. Energy UK believes that the methodology as currently proposed needs to be reworked so that it is informed by the most up-to-date data available on what suppliers can realistically achieve in the next four years. Energy UK disagrees that BEIS's model should be based on the non-binding and out of date projections for 2020 installation rates set out in suppliers' Rollout Plans submitted to Ofgem in 2019 (or before).

Additionally, Energy UK's members welcome further clarification on how Ofgem will assess suppliers whose performance against targets is significantly affected by material changes to their customer base, including by factors outside their control (such as Supplier of Last Resort events).

**Q7. Do you agree with the proposal that "customer churn" – arising from consumers switching suppliers- should be accounted in suppliers' pre-set annual milestones? Please give reasons for your answer.**

Energy UK and its members agree with the proposed principle that 'customer churn' associated with customers switching suppliers should be accounted for in suppliers' pre-set annual milestones.

However, this does not alter the base-number of non-smart customers at the end of each year. It is important to note that, irrespective of the number of customers that install and change supplier in the same year, the subsequent remaining customer-bases will increasingly be made up of those who are hardest to reach or reluctant to respond to the offer of a smart meter. This will result in end-of-year milestone targets becoming even harder to achieve.

**Q8. Do you agree with the proposal that any post 2020 obligation should be applied to all suppliers regardless of size and date of entry into the market? Please give reasons for your answer.**

As noted in our principles for new regulation set out at the beginning of this paper, Energy UK and its members strongly support the proposal that the new obligation must apply to all suppliers, regardless of their size or date of entry into the market. Any deviation or watering-down from this position will simply exacerbate inconsistencies in how regulatory costs are felt by suppliers across the market and

is likely to create a clear incentive for suppliers to keep their customer numbers below any applicability thresholds that currently exist.

This would make the post 2020 policy consistent with the current obligation on energy suppliers to become DCC users and able to fully operate any gained smart metered consumers. It would also ensure that all energy suppliers are aligned to the overall aim of delivering the necessary building blocks in delivering Government's net-zero greenhouse gas emissions by the 2050 target.

However, Energy UK notes the significant risk within the proposed framework for both small and non-domestic suppliers, who have either hitherto not - or only recently - been obligated under ARS obligations. These suppliers naturally have less advanced rollout programmes and as such, will be disproportionately impacted by the combined effects of consumer apathy, ramp-up costs incurred and potential enforcement action should the mandated targets not be met.

**Q9. Do you agree with the proposal of a mid-point review to revisit tolerance levels within the monitoring framework period in line with market conditions?**

**a. If the answer is yes, when do you think will be the best time for this review?**

**If the answer is no, please explain why not.**

Energy UK welcomes the acknowledgment for the need for periodic reviews of the framework. Rather than a single mid-point review as proposed, there should be an annual review of rollout progress, with the first of these taking place early in Quarter 4 of 2020. Each review should use the very latest rollout information reported by suppliers to reflect the most up-to-date market conditions, including suppliers' most recent rollout progress. The review should also include an evaluation of consumer sentiment towards take-up of smart meters, and also consider the progress and latest expected delivery milestones of all associated technical and operational activities being delivered by the key infrastructure providers (including device manufacturers) involved in the delivery of the smart rollout programme.

Energy UK and its members welcome the acknowledgement from BEIS of the need for reviews to revisit tolerance levels within the framework in line with market conditions. However, any review must also include the ability for suppliers to re-submit their projected smart meter installation forecasts to take account of the latest market conditions, rather than relying on forecasts that have since become out of date.

Energy UK is keen to work with BEIS on defining criteria for all suppliers to use when setting their annual rollout projections for the forthcoming year, ensuring that every supplier is working from the same starting point on 1<sup>st</sup> January the following year. This process should then be repeated in 2021, 2022 and 2023 using the same criteria.

**Q10. Do you agree that the legal drafting in Annex 1 implements the policy intention proposed in this consultation? Please give reasons for your answer.**

As Energy UK and its members do not agree that the proposals set out in the consultation are sufficient to complete the rollout of smart meters, and unanimously agree that alternative arrangements are required, Energy UK does not believe it is appropriate for it to answer this question.

**Q11. Do you agree with the legal drafting in Annex 2 in relation to the post 2020 reporting requirements on rollout information to be provided to the Secretary of State? Please give reasons for your answer.**

As Energy UK and its members do not agree that the proposals set out in the consultation are sufficient to complete the rollout of smart meters, and all agree that alternative arrangements are required, Energy UK does will not answer the question as drafted.

With regard to the proposed reporting requirements themselves, Energy UK's members have concerns that the reporting requirements (including examples of how milestone targets will be set and measured if the proposed arrangements are taken forward) will result in a significant accrual of smart

meter installations required to take place in 2024, to the point that the 2024 targets will be virtually impossible to meet based on supplier experience of consumer take-up for smart meters.

Energy UK's members also note their concerns that the ongoing Ofgem consultation on roll-out reporting has been released prior to this drafting being confirmed, particularly considering the dependency of the proposed reporting framework on the as-yet unimplemented framework.

**Q12. Do you agree with the legal drafting in Annex 6 setting out proposed consequential changes to existing licence conditions as a result of the previous amendments? Please give reasons for your answer.**

As Energy UK and its members do not agree that the proposals set out in the consultation are sufficient to complete the rollout of smart meters, and all agree that alternative arrangements are required, Energy UK does not believe it is appropriate to answer this question.

DCC Charging

**Q13. Do you agree with the proposed changes to DCC charging arrangements in the period after end-2020? Please give reasons for your answer.**

Energy UK's members all agree that there is a need to extend the current DCC charging arrangements after the end of 2020 due to the unanticipated levels of smart meters that will be connected to the DCC.

At least one of our members has suggested that this may also present a good opportunity to carry out a more thorough review of the current DCC charging arrangements to ensure that they remain fit-for-purpose beyond 2020.

Energy UK notes the context of the recent Ofgem consultation on DCC price control, and echoes the concerns set out by Ofgem in the consultation around the future cost control arrangements for the DCC. We note the need for a thorough examination of the future requirements of the DCC, and the need to ensure any future work undertaken by the DCC ultimately provides value for customers, and protects them from unnecessary bill increases.

**Q14. Do you agree that the legal drafting in Annex 3 implements the policy intention? Please give reasons for your answer.**

Energy UK agrees that the legal drafting in Annex 3 implements the policy intention.

Coordinated Consumer Engagement Activity

**Q15. What types of coordinated consumer engagement activities are necessary in the period after 2020 to support delivery of a market-wide rollout? Please provide your rationale to support your suggestions.**

The majority of Energy UK's members believe that there is a need for some centrally coordinated consumer engagement after 2020.

SEGB was created in 2013 as a result of the enduring licence condition on suppliers to create a Central Delivery Body (CDB) to promote consumer awareness of the smart programme, and was developed as the rollout was being progressed in its early stages by the six largest suppliers. The core campaign activity and governance regime were therefore built around the objective of driving consumer awareness, (with a focus on above-the-line marketing-led activity). The CDB was initially intended to have an emphasis on local engagement, using SEGB to support the work of suppliers at a much lower budget.

BEIS, Ofgem and suppliers have all noted the changing dynamics of the rollout, the nature of an evolving supply market and the consumer engagement challenge, and note the need to take stock of the existing strategy and delivery of the SEGB national campaign, in order to ensure that the CDB is delivering on its goals to drive the consumer uptake. SEGB's independent analysis produced by

Populus clearly indicates that saturation has been reached with regards to the volume of easy-to-reach, eligible consumers who will accept a smart meter.

Energy UK notes the results from the Frontier report finding a continued decay in the number of customers seeking or accepting a smart meter out to 2025. As noted by both Frontier and BEIS the remaining non-smart pool of customers will increasingly consist of rejecters, with those in the seek/accept group having peaked with the resolution of eligibility issues in 2020. As such, there are limitations as to what can be achieved by engagement with a voluntary consumer base.

While suppliers have their own strategies in place to drive installs amongst their customer bases via their own channels and using knowledge and relationships with their own customers, Energy UK's members have noted the ongoing need for a collective PR mechanism, and the need for a party to drive overall awareness and customer acceptance of smart.

Both suppliers and SEGB have noted that the task of driving bookings sits best with suppliers, and that SEGB's role should focus on maintaining positive sentiment, and also to shift opinion amongst rejecters towards accepting a smart meter. It is anticipated that this will primarily result from projects such as the Derby local pilot and partnerships with external organisations, albeit these are still in their infancy.

Energy UK believes any activity taking place leading up to and beyond 2020 should be justified and linked to driving installs. SEGB's Performance Management Framework (PMF) Forum should continue to ensure that SEGB activity delivers installations.

With around 20% of the original smart programme benefits case accruing from non-domestic consumers, Energy UK will continue to support non-domestic suppliers in their engagement with SEGB and the PMF Forum.

Members note the recent positive response to the net-zero ambition as an opportunity for industry and call on government to signal the need for individual level action (i.e. consumers accepting a smart meter), paving the way for a customer impetus mechanism to be introduced as soon as possible, and ideally before the end of 2020.

However, an accurate timeline (starting from a correct starting point in terms of rollout volume) is needed to ensure that any PR and Marketing campaign presents a good rate of return for costs that are ultimately passed on to consumers.

Energy UK would like to understand what more BEIS and Ofgem expect suppliers to do regarding active refusers, and note evidence shared as part of BEIS' maturity model work illustrating that previously receptive consumers can be easily pushed into the hard rejecter category.

### Embedding Consumer Behaviour Change

#### **Q16. What policy amendments or new initiatives you consider will be required to ensure that the consumer benefits of smart metering are sustained? Please provide evidence to support your views.**

As highlighted above, the immediate focus for government and industry alike should be to complete the smart meter rollout as quickly and efficiently as possible, so that industry technology and infrastructure can go on and deliver the benefits that the CBA assumes.

#### **Q17. What other policy measures should the Government consider in order to complement the proposed market-wide rollout obligation? Please give a rationale and evidence to support your suggestions.**

The rollout of smart meters is the first step in modernising the GB energy market. The information and data provided by smart meter functionality will play a key part in transforming the GB energy market as it moves towards the Government target of reaching net zero by 2050. At the same time the business case for the rollout is predicated on a quantum of installs under a framework where energy suppliers

are obligated to install smart meters, yet consumers are not required to accept the offer of a smart meter. This means that BEIS' proposals will put sole responsibility and the corresponding risk lies solely on energy suppliers, continuing this issue from the current framework.

There is clear consensus among all of Energy UK's members that to enable GB to meet its net zero ambition, and in order to install the number of meters needed to maximise the business case benefits, smart meters must be regarded as the default metering option. For this to be both understood and accepted by consumers, it needs to be first enshrined throughout the wider government policy framework, requiring definite cross-government policy links on all energy policy decisions from now on, as noted in our response to Question 16 above. Consideration also needs to be given to how the policy framework for smart meters should reflect consumer responsibility for the rollout, and the role that British citizens must now play in meeting the net zero ambition, so that smart meters can be 'normalised'.

Energy UK notes the need to implement bold policy changes in line with the implementation of the post-2020 framework in order to ensure the roll-out continues at the pace needed to meet net-zero goals. There is risk that necessary levels of consumer take up will not be met if Government wait until after 2024 as was suggested by Lord Duncan (and supported by BEIS and Ofgem) at the BEIS Select Committee hearing on the smart meter rollout on 30th October 2019.

The policy measures required fall into three broad categories:

- **Industry Led Campaigns** - Industry led campaigns should continue to ensure customer awareness of smart can be sustained. Particularly, awareness of how smart can benefit their homes through energy efficiency and new products, as well as the effect smart has on the de-carbonisation of the National Grid.
- **Removal of Regulatory Barriers** - Energy UK believes BEIS should engage with Ofgem to clarify the use of smart contingent discounts and tariffs to ensure smart benefits can be passed on to consumers. Energy UK believes pricing signals could ensure suppliers continue benefiting from the smart rollout.
- **Industry Blockers** - Customers cannot fully benefit from smart as supplier propositions are blocked by industry-level barriers. Energy UK believe BEIS should continue engaging with industry parties to unblock technical barriers to full scale launch of future looking policies such as: Market Wider Half-hourly settlement, Smart Export Guarantee, Flexibility initiatives and others.

Energy UK ran a workshop earlier in the year which was attended by a wide range of stakeholders from the housing sector, consumer groups and fuel poverty charities, among others. All stakeholders recognise the individual and societal benefits of the rollout of smart meters and noted the challenge of driving consumer acceptance today, providing positive input into some of the examples below where immediate changes to existing legislative and regulatory instruments could assist in the facilitating the completion of the smart meter rollout. This list is not exhaustive, but is intended to show the most obvious areas where change could be implemented relatively easily:

#### **Guidance relating to the All Reasonable Steps element of the New & Replacement Meter Obligation:**

Energy UK and its members recommends that BEIS works alongside Ofgem and industry to develop and introduce clear guidance on when it might be deemed reasonable for an energy supplier to install a meter that does not meet the SMETS specifications under the existing NRO obligation. Energy UK believe this is a 'quick win' in giving all energy suppliers absolute certainty on the measures that Ofgem expects them to have undertaken in order to try and ensure a meter meeting the SMETS specifications is installed. It should improve consistency for consumers and remove any element of doubt for suppliers on what is expected of them, and the circumstances in which exemptions will be allowed.

#### **Amending relevant Legislative Instruments to require smart meters to be installed in all relevant premises:**

It is clear from the evidence now available that the rollout of smart meters cannot be completed in the timescales or within the expected costs under a framework that relies on consumers to request or accept the offer of a smart meter from their energy supplier. While the NRO obligates the installation of

meters meeting the SMETS specifications, it is an energy supplier obligation rather than a Legislative requirement associated with energy supply. Energy UK believes it is now necessary to make changes to relevant Legislative Instruments to require smart meters to be installed in all relevant premises, save for a very limited set of defined exemptions. It is Energy UK's view that this can be achieved without removing the key elements of consumer choice or needing new consumer protections.

Consumers are already able to choose what level of data and information can be accessed from smart meters by their energy supplier if they have concerns about personal intrusion or data privacy. They are also able to refuse the provision of an In-Home Display or advice on how to use energy more efficiently as part of the smart meter installation process if they do not want greater visibility of, or want to manage their energy usage more efficiently. As such, the amendment of relevant Legislative Instruments can be made without removing the principle of consumer choice, and the need to consider additional consumer protection measures.

#### **Engagement with Landlords at Domestic Properties:**

Energy UK also notes that there are a number of scenarios which can impede the install of smart meters in the domestic setting, in particular where consumers are in rented accommodation, and as such, may lack the sufficient confidence to proceed with a Smart Meter install. As such, initiatives to ensure that there is an obligation on landlords to ensure that a Smart Meters are fitted at their property would further drive the penetration of smart in typically hard-to-reach areas.

#### **Introduce a requirement for smart meters to be installed under all Government/Energy Company based energy efficiency initiatives:**

Government must make a clear link to the role that smart meters will play in helping consumers manage and reduce their energy consumption by putting the necessary legislative framework in place that requires any consumer who is participating in any Government-based energy efficiency scheme (including schemes under the control of energy suppliers as directed by Government/Supply Licence obligations) to have smart metering equipment installed (including the provision of an In-Home Display or equivalent equipment) before benefitting from such a scheme.

#### **Incorporation of smart metering into the Minimum Energy Efficiency Standards regulations for domestic rented properties:**

Government should seek to introduce a new requirement into the Domestic Minimum Energy Efficiency Standard regulations that requires the installation of smart metering equipment (including an in-homes display) in order for a property to be rented out to a new tenant. This would ensure there is an obligation on landlords to ensure that smart meters are fitted at their property and drive the penetration of smart in typically hard-to-reach areas

#### **A new requirement under Building Regulations for all new build properties to have smart meters installed:**

With energy suppliers operating under the New & replacement Meter obligation already, another 'quick win' could be achieved by adding a new requirement into the Building Regulations that requires smart meters to be installed in all new homes with immediate effect. Longer-term thought should be given to consider how building design and planning regulations can be updated to ensure any new or existing properties are adequately designed to allow Smart Meters to operate effectively within them

#### **Requiring smart meters to be installed wherever a new EV Charging Point is installed in domestic/business premises:**

As the UK moves towards a future of Electric Vehicles (EVs) in order to de-carbonise transport, it is inevitable that there will be a significant increase in the number of EV charging points installed in both domestic and business premises over the next 30 years or more. Government should look to mandate the requirement for smart metering equipment to be installed whenever a new EV charging point is installed. Not only will this provide benefits to consumers (by allowing them to charge Electric Vehicles at the cheapest period of the day), but it will also enable Electricity Network Operators to have greater visibility of electricity load on their networks at any given time of the day and so facilitate a better management of their network infrastructure.

#### **A Non-Smart Consumer Levy:**

Energy UK's members also agree that it is now time for Government and industry to be brave in opening discussions with energy consumers about the implications of not accepting a smart meter.

Alongside the measures outlined above, government should signal the need for the application of a pass-through consumer levy for consumers that are eligible for smart but either fail to respond to the offer of, or refuse the installation of a smart meter (with appropriate protection for vulnerable customers) to be implemented as part of the Post 2020 framework.

If you have any questions on this consultation response, or would like to discuss in person, please do not hesitate to contact me at [daisy.cross@energy-uk.org.uk](mailto:daisy.cross@energy-uk.org.uk)

Yours sincerely,

Daisy Cross  
Energy UK, Head of Smart Programme