Department for Business, Energy & Industrial Strategy
1 Victoria Street,
London SW1H 0ET

www.gov.uk/beis

12 October 2022

To: All holders of an electricity supply licence or gas supply licence

Dear Colleague,

SMART METERING IMPLEMENTATION PROGRAMME: GOVERNMENT RESPONSE TO THE CONSULTATION ON AMENDING THE SMETS1 REPLACEMENT OBLIGATION AND RESULTING DIRECTION

Overview

1. This letter constitutes the Government response to its consultation of 29 July – 26 August 2022[1] on whether to amend the Replacement Obligation (Electricity Supply and Gas Supply Licence Conditions 54.7 and 48.7 respectively) for all non-enrolled SMETS1 meters. The consultation proposed a revised date of 30 June 2023 and provided an opportunity for respondents to set out any arguments in support of setting a later date in 2023. I set out below a summary of responses, Government's decision, and a direction to implement that decision.
2. It should be noted that this decision has no bearing on the required pace of enrolment of SMETS1 meters onto DCC systems. Government did not propose to amend the enrolment duty (Conditions 54.5 and 48.5 of the Electricity and Gas Supply Licences respectively) which requires all Energy Suppliers to take all reasonable steps to enrol any SMETS1 Smart Metering Systems with the DCC within 12 months of the meter becoming eligible[2].

Summary of Responses

3. We received a total of 20 written responses to the following questions from the organisations set out in the **Annex** to this letter:

   Consultation Question 1: Do you agree with the proposed SMETS1 replacement obligation extension to 30 June 2023?

   Consultation Question 2: Do you have evidence to support an extension of the

[1] https://smartenergycodecompany.co.uk/download/43066/
[2] In respect of SMETS1 dormant meters only, DCC has obligations to enrol these on behalf of energy suppliers and has now completed the bulk of this activity.

replacement obligation to a later date in 2023?

4. 19 respondents were supportive of the concept of an extension and a number of these called out their support for the evidence set out in the consultation paper, in particular the need to effectively plan and execute delivery of replacements alongside delivering against SMETS2 installation targets. One respondent was against the proposed extension on the basis that it believed the obligation should be removed entirely. It considered that only those consumers expressly requesting a replacement meter should be offered one, and that the policy was of lower priority than installing smart meters for the first time.

5. Taking a closer look at the consultation responses, of the 19 organisations in support of an extension to the date by which all replacements should be completed:

   - 3 respondents were supportive of a 30 June 2023 extension date;
   - 7 respondents were supportive of a 30 June 2023 extension date but suggested a review point, typically in early 2023, with the potential for a further extension beyond June. Several of these respondents suggested a joint BEIS and industry review team to assess the advantage of a later date or removal of the obligation. One of these respondents supported a review once all relevant DCC consultations on migration exclusion categories have concluded;
   - 7 respondents supported an extension past June 2023 to later in the year, mostly to December 2023, with one arguing for September 2023. One respondent supported an extension to June 2024 to allow for additional time for enrolment of viable SMETS1 devices to avoid premature replacements and allowing for Energy Supplier focus on SMETS2 targets: and
   - 2 respondents were supportive of an extension out to 2025 to align with the end of the SMETS2 installation targets regime or with an alignment to other operational triggers e.g., the availability of 4G communication hubs.

Government response

6. Having fully reviewed and considered the evidence from respondents, Government considers it is in consumer and industry best interests to extend the SMETS1 replacement obligation to **31 December 2023**. We have set out a summary of the justification for this decision below.

7. The replacement obligation remains important to support the delivery of a fully interoperable smart metering market that allows consumers to take control of their energy use. We do not therefore agree with the arguments presented for a removal of the replacement obligation, which could lead to significant lost benefits from smart meter services being returned to consumers both in the short and long term.

8. It remains essential that Energy Suppliers can complete any replacements in an efficient way, recognising that any replacement programme brings costs which may be passed onto consumers. Several respondents outlined the economic costs associated with replacements in addition to disruption to consumers as arguments for supporting an extended date beyond June 2023. An extension to the obligation to support Energy Suppliers' replacement strategy planning and operations needs to be balanced against the length of time that some consumers will have to wait in order to have their smart services

and benefits restored to them. By extending the obligation to the end of 2023 we are recognising the need for Energy Suppliers to have longer-term certainty to effectively plan and execute their replacement programmes, whilst at the same time holding to a long-standing obligation that is overall in consumers' best interests.

9. An extension of 12 months to the replacement obligation ensures that Energy Suppliers have sufficient time to plan and then effectively and efficiently execute the SMETS2 deployments required by the SMETS1 replacement obligation for any non-enrollable SMETS1 assets. The revised replacement obligation date of 31 December 2023 means there is a period of 12 months for replacements beyond the time all significant populations of eligible SMETS1 meters should have been enrolled during their 12-month migration window.

10. As outlined by several respondents, we have also reflected on the fact that final DCC decisions on exclusion categories may now only be known in early 2023 (although a significant proportion of the excluded devices, especially in relation to the IOC and MOC cohorts, have already been communicated to Energy Suppliers). A December 2023 date provides a material increase on the 6-month replacement window outlined as needed by industry at the outset of setting the obligation. The revised date also recognises the SMETS2 targets regime that Energy Suppliers are subject to.

11. Several respondents supported a formal, joint review of the obligation between industry and BEIS later in 2022/early 2023 if a June 2023 date was set. Another respondent proposed that the 30 June 2023 target should be implemented as a date to commence a three-month consultation period with industry, with the potential to extend the deadline further, dependent on the number of SMETS1 devices to be replaced. The replacement duty is a longstanding obligation on which we want industry to have certainty to plan delivery. Government considers that the new date provides ample notice, including catering for any unforeseen issues that might arise. As such, we have not scheduled a further formal review point.

12. Two respondents suggested an extension of the replacement obligation to the end of the Targets Framework in 2025. They argued that this would ensure Energy Suppliers are able to fulfil both their SMETS2 rollout obligations and the SMETS1 replacement obligation and have access to sufficient metering equipment and installation resource. Three further respondents proposed that the replacement obligation should be considered in the context of wider replacement programmes, including the onset of 4G comms hubs. These respondents argued that the SMETS1 replacement obligation has the potential to increase the number of visits to each individual customer, to perform multiple asset exchanges. The environmental impact of multiple device replacements was also cited. Government has decided, after consideration of all the evidence, against such an extension beyond 31 December 2023 as this would leave affected consumers with smart metering systems that are not providing smart services, or which are not interoperable, for an unreasonable period of time.

13. Two respondents proposed that cohorts could be considered distinctly, depending on their relative progress, where the FOC cohort in isolation could be granted an extension to the replacement obligation. Under this scenario the respondents propose this would create a set of circumstances where DCC may be able to reduce costs by closing specific cohorts and avoid leaving enrollable meters behind. Government has decided not to split the replacement obligation on a per cohort basis as it is a backstop obligation; Energy

Suppliers should be taking all reasonable steps to replace meters at the earliest practicable opportunity in the interests of their consumers. Further, the timely closing down of DCC capacity is primarily dependent on Energy Suppliers meeting their enrolment obligations, which bite earlier than the replacement obligation and are cohort specific.

14. One respondent proposed that the obligation should be changed to cover only DCC notified meters that cannot be enrolled. However, DCC only notifies dormant meters or those active meters that Energy Suppliers themselves could not readily determine, so this would not lead to unenrolled assets being replaced in a timely way.

Direction

This direction is issued to all holders of a licence granted or treated as granted under section 6(1)(d) of the Electricity Act 1989 (an “Electricity Supply Licence”) and to all holders of a licence granted or treated as granted under section 7A(1) of the Gas Act 1986 (a “Gas Supply Licence”).

This direction is made under standard condition 54.7 of the Electricity Supply Licence and standard condition 48.7 of the Gas Supply Licence.

Where standard condition 54.7 of the Electricity Supply Licence or standard condition 48.7 of the Gas Supply Licence applies, the licensee must take all reasonable steps to ensure that a SMETS2+ Smart Metering System is installed at the non-enrolled SMETS1 premises on or before 31 December 2023 (that being the date specified by the Secretary of State in this direction). This direction is to have effect from 13 October 2022.

Words and expressions used in this direction shall be interpreted in accordance with the Definitions and Interpretation set out in the standard conditions of Electricity Supply and Gas Supply Licences.

This direction is also being notified to the Authority (OFGEM), the SEC Administrator, the SEC Panel and the SEC Parties.

Yours faithfully,

Duncan Stone

Deputy Director & Head of Delivery,
Smart Metering Implementation Programme

(An official of the Department for Business, Energy & Industrial Strategy authorised to act on behalf of the Secretary of State)

Annex – List of Consultation Respondents

Organisation Type	Organisation
Energy Supplier	Centrica Corona Energy Drax Group Engie E.ON Good Energy Ovo Scottish Power Utilita Utility Warehouse Two Confidential Respondents
Other	Calvin Asset Management Energy UK Geo Together Industrial and Commercial Shippers and Suppliers Northern Power Grid Smart Meter Assets Vantage Meters Confidential Respondent