

EXPLANATORY MEMORANDUM TO

**THE MODIFICATIONS TO THE STANDARD CONDITIONS OF GAS AND
ELECTRICITY SUPPLY LICENCES, THE SMART ENERGY CODE AND THE
CONDITIONS OF THE SMART METER COMMUNICATION LICENCES (SMART
METERS No. 2 of 2025)**

1. Introduction

- 1.1 This explanatory memorandum has been prepared by the Department for Energy Security & Net Zero and is laid before Parliament by Command of his Majesty.

2. Declaration

- 2.1 Miatta Fahnbulleh, Parliamentary Under-Secretary of State (Minister for Energy Consumers) at the Department for Energy Security & Net Zero confirms that this Explanatory Memorandum meets the required standard.
- 2.2 Daron Walker, Senior Responsible Owner for the Smart Metering Implementation Programme at the Department for Energy Security & Net Zero confirms that this Explanatory Memorandum meets the required standard.

3. Contact

- 3.1 Mike Lewis at the Department for Energy Security & Net Zero email: mike.lewis@energysecurity.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

- 4.1 This instrument amends the conditions of gas and electricity supply licences¹, the Smart Meter Communication Licences¹ and the Smart Energy Code (SEC)² to enable Smart DCC Ltd ('the DCC') to both provide: 4G communications services to Smart Meters in the north Geographical Region of Great Britain; and a service which enables the DCC to communicate with Smart Meters over the internet.

Where does the legislation extend to, and apply?

- 4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is Great Britain.
- 4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is Great Britain.

5. Policy Context

What is being done and why?

- 5.1 The instrument being introduced into Parliament includes two sets of changes, both of which will increase the number of consumers eligible for a smart meter installation. The first is to extend the 4G smart metering communications network into the north

¹ <https://www.ofgem.gov.uk/energy-policy-and-regulation/industry-licensing/licences-and-licence-conditions>

² <https://smartenergycodecompany.co.uk/the-smart-energy-code-2/>

Geographical Region of Great Britain, and the second is to implement arrangements whereby smart meters can be communicated with over the internet (subject to the consumer's consent to use their broadband to do so).

- 5.2 The extension of the 4G smart metering communications network to the north Geographical Region will build upon and bolster the existing long range radio solution in the north Geographical Region and is required to complete the rollout in this region. The DCC has already developed a 4G communications service in the central and south Geographical Regions, so extending this service to the north does not necessitate additional development. This instrument is needed to ensure that the 4G service capability that the DCC has already developed in the central and south Geographical Regions is made available to energy suppliers throughout GB so they can place reliance on the service being available to them.
- 5.3 The cellular and long-range radio networks that are used to communicate with Smart Meters do not cover 100% of Great Britain. DCC's contracts for such coverage is for 99.3% of premises. Changes are being made to the Smart Meter Communication Licences to require the DCC to provide a "Virtual WAN³" service that will allow communications with Smart Meters over the internet. This service is primarily intended to allow premises outside of the DCC's coverage to benefit from the installation of a Smart Meter. It will be necessary for the consumer's consent to be given to allow a device with "Virtual WAN" functionality to be connected to their broadband in order to enable the communications using the Virtual WAN service.

What was the previous policy, how is this different?

- 5.4 The DCC previously supported one communications service in the north Geographical Region of Great Britain utilising long range radio communications technology. This instrument extends this to additionally include a 4G communications service in the north Geographical Region. The Virtual WAN arrangements are new and will establish a communications service to consumers previously unable to receive connections. This will help support premises that sit outside of the DCC's contracted coverage of 99.3%.
- 5.5 Prior to the introduction of the "Virtual WAN" service, premises not covered by the networks that the DCC uses to communicate with Smart Meters could not benefit from the installation of a Smart Meter that could be operated in Smart Mode.

6. Legislative and Legal Context

How has the law changed?

- 6.1 There are no changes to primary or secondary legislation as a consequence of this instrument. Instead, it makes changes only to conditions of Gas and Electricity Supply licences, the Smart Meter Communication Licences and to the SEC. The SEC is a regulated contract between the DCC (the holder of the Smart Meter Communication Licences) and energy suppliers and other persons wishing to communicate with Smart Meters. The SEC sets out the contractual arrangements under which the DCC provides its smart metering related services to these persons.
- 6.2 The Smart Meter Communication Licence is a single document that constitutes a licence under both the Gas Act 1986 and the Electricity Act 1989 and hence is legally

³ The term "WAN" refers to the Wide Area Network, which is the telecommunications network that is used to relay communications to and from smart meters. The current WAN is a mixture of long-range radio and cellular technologies. The "Virtual WAN" uses the internet to relay these communications.

two licences in one (and hence the reference to Smart Meter Communication Licences in the plural in certain instances in this document). Custom and practice is to refer to it in the singular, and this is the approach adopted for the purposes of the remainder of this document.

- 6.3 Insofar as it relates to the extension of the 4G communications service to the north Geographical Region of Great Britain, this instrument makes a number of changes to the Smart Energy Code. The changes are essentially limited to extending the provisions that require the existing 4G service to be provided in the central and south Geographical Regions to additionally include the north.
- 6.4 In support of the changes to allow DCC to communicate with Smart Meters over the internet, the instrument adds the concept of a Virtual WAN Provider Service into the DCC Licence and requires it to be provided in accordance with the provisions of the Smart Energy Code. A number of consequential changes associated with the provision of this new service are also being made in the licence.
- 6.5 Changes are also being made to gas and electricity supply licence conditions in order to augment the existing obligations on suppliers that relate to the provision of information to customers if consideration is being given to operating a Smart Meter that is connected to the DCC via the internet is to be operated in prepayment mode. The changes also prevent such a smart metering system from being operated in prepayment mode without the consent of the customer.
- 6.6 In order for a Smart Meter to connect to the consumer's internet it is necessary for a device with additional functionality to be provided which forms a connection between the consumer's broadband and the Communications Hub. Devices with the necessary functionality are referred to as "Virtual WAN Devices" (VWD). A further change is being made that prevents a supplier from charging an up-front fee for a VWD with the minimal functionality needed to support the connection. In addition, there is a new obligation on suppliers to take all reasonable steps to maintain the connection between a VWD and the Communications Hub, and not to do anything that compromises the connection between the VWD and the consumer's broadband.
- 6.7 Changes are also being made to the Smart Energy Code to support the operation of the new Virtual WAN Provider Service. These changes include: new and modified definitions; provisions that explain the steps that VWD manufacturers must meet in order for their devices to be permitted to be used for smart metering related purposes; making provision for SEC Parties⁴ to be able to find out which Smart Meters rely on VWDs; the addition of testing provisions; obligations on DCC to provide the Virtual WAN Provider Service; provisions recognising the need for a new interface specification that sets out the technical details of the connection between a VWD and the Communications Hub, and between the VWD and the DCC via the consumer's broadband; provision for a transition document to allow the changes to be phased in gradually; and the introduction of a new public key infrastructure (referred to as VWKI) to be used to ensure that communications between the Virtual WAN Device and DCC are secure.

⁴ The Smart Energy Code (SEC) is a contract between the DCC and persons who want DCC to communicate with smart meters on their behalf. These persons (known as the SEC Parties) include energy suppliers, distribution system operators and others (who, for example, offer energy efficiency advice to consumers and wish to access consumption data with the permission of the consumer).

Why was this approach taken to change the law?

- 6.8 The DCC's decision to extend 4G communications services to the north Geographical Region is necessary to complete the smart meter rollout in this region.
- 6.9 Similar considerations apply to the introduction of the Virtual WAN Provider Service which will make smart metering available to a substantial number of those consumers who cannot have a Smart Meter because they live outside the DCC's WAN coverage area.
- 6.10 The exercise of powers under section 88 of the Energy Act 2008 is the only available means by which Government can make the necessary changes to gas and electricity supply licences, the Smart Meter Communications Licence and the SEC.

7. Consultation

Summary of consultation outcome and methodology

- 7.1 The Department for Energy Security & Net Zero (DESNZ) consulted with SEC Parties upon the proposed changes to the SEC to extend the 4G communications services to the north Geographical Region between 31 March and 9 May 2025. The consultation was published on the SEC website and was made publicly available. DESNZ received a total of eight consultation responses. All eight respondents agreed with the proposed changes to the main body SEC and DESNZ published its conclusions on 30 May 2025.
- 7.2 DESNZ consulted on the proposed changes to licences and the SEC to implement the Virtual WAN Provider Service between 23 April and 30 May 2025. This followed previous consultations in December 2023 and January 2025. A total of five responses were received to the consultation, all of which were broadly supportive of the introduction of the VWAN arrangements, some making minor drafting change suggestions. DESNZ published its conclusion in June 2025 with a few minor adjustments to the drafting following the consultation.

8. Applicable Guidance

- 8.1 The Government does not intend to publish any guidance related to these modifications. The Smart Energy Code Administrator and Secretariat (SECAS) has duties to provide advice and support to SEC Parties on the SEC.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

- 9.1 This instrument qualifies as De Minimis and thus a full Impact Assessment has not been prepared for this instrument because this instrument only legally enables the DCC to deliver services that it has already procured, and the associated DCC delivery costs are now scrutinised by Ofgem under its price control mechanism. An updated Cost Benefit Analysis for smart metering was published in September 2019⁵. This estimated the costs and benefits associated with the GB roll-out of smart meters and identified a Net Present Value of £6 billion for the appraisal period from 2013 up to

⁵ <https://www.gov.uk/government/publications/smart-meter-roll-out-cost-benefit-analysis-2019>

and including 2034⁶, yielding £1.44 of benefit for every £1 spent. The level of smart meter coverage needed to reach breakeven, after which the benefits accrued begin to exceed the total fixed and already accrued costs of the roll-out, was achieved during 2019. Therefore, all meters installed after this point provide a positive net benefit to society. These modifications will assist in ensuring that these net benefits are secured.

Impact on businesses, charities and voluntary bodies

- 9.2 There is no, or no significant, impact on business, charities or voluntary bodies because this instrument only legally enables the DCC to deliver the services that it has already procured.
- 9.3 The legislation does not impact small or micro businesses.
- 9.4 There is no, or no significant, impact on the public sector.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

- 10.1 Monitoring of this legislation will be undertaken as part of the wider and established ongoing Government's monitoring of SMIP, which includes process and impact evaluation activities. The Authority continues to be responsible for monitoring and taking licence enforcement action, where necessary, in line with its guidelines. The SEC Panel continues to have responsibility for enabling the SEC to be implemented transparently and effectively.
- 10.2 The instrument does not include a statutory review clause as it is not a statutory instrument.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

- 11.1 None. The instrument modifies conditions of the gas and electricity supply licences and the Smart Meter Communication Licences granted under the Gas Act 1986 and the Electricity Act 1989, and the SEC that is in turn established under conditions of the Smart Meter Communication Licences. The instrument is not a statutory instrument.

12. European Convention on Human Rights

- 12.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

- 13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts"). It does not relate to the withdrawal of the United Kingdom from the European Union.

⁶ Central projections, 2012 prices, discounted to 2019. Previous Cost Benefit Analysis (CBA) appraisal was in November 2016 covering 2013 – 2030. The updated CBA covers 2013-2034 (inclusive) to appraise the costs and benefits of one full cycle of smart meter installations.