



Department for
Business, Energy
& Industrial Strategy

Department for Business,
Energy & Industrial Strategy
1 Victoria Street,
London SW1H 0ET
www.gov.uk/beis

The Authority (Ofgem), the SEC Panel, SEC Parties and other interested parties

22 January 2019

Dear Colleague,

CONSULTATION ON THE NEW AND REPLACEMENT OBLIGATION (NRO) ACTIVATION DATE

Purpose of consultation

Energy supply licence conditions¹ enable the Department for Business, Energy and Industrial Strategy (BEIS) to specify a date from which energy suppliers must take all reasonable steps to install a compliant smart meter where a meter is replaced or where a meter is installed for the first time (e.g. in new premises). This is referred to as the 'New and Replacement Obligation' (NRO). The Government is proposing to activate the NRO on 31 March 2019, and this consultation seeks views on that proposal.

Background

Before the NRO is activated, when a new meter is required or an existing meter needs to be replaced, an energy supplier may install a traditional meter even in cases where a smart meter could have been installed. This could increase industry costs and negatively impact consumer experience as additional meter replacements might then occur within a short period of time. This is because energy suppliers are required by licence conditions to take all reasonable steps to install compliant smart meters at all domestic and smaller non-domestic premises by the end of 2020. The NRO is intended to drive the rollout and also make smart meters the default metering offering for energy supply in Great Britain.

¹ Electricity Supply Standard Licence Condition (SLC) 39.7 to 39.9; Gas Supply SLC 33.7 to 33.9.

The 2015 roll-out strategy consultation² noted that the NRO should take effect on or after the SMETS1 end-date so that consumers are able to take advantage of the full benefits of SMETS2 meters whenever a meter is replaced, or new connections established (e.g. in new build premises or premises which are divided and new meter points installed).

Credit and pre-payment SMETS1 end-dates have now been set, and energy suppliers' transition to SMETS2 is well underway: the installation rate of SMETS2 meters has increased significantly over the last two quarters of 2018, with over 300,000 such meters installed and operating via the DCC as at 22 January 2019.

Rationale

Activating the NRO sends a clear signal that Government is embedding the changeover from traditional to smart metering. This will help more consumers save money and benefit from smart metering as soon as possible and ensure that costs for replacing traditional meters in future years are minimised, especially for new connections. As the NRO is an 'all reasonable steps' obligation, it does not affect consumers' ability to choose whether to accept the offer of a smart meter.

We note that some SMETS2 solutions are still under development or in final testing phases (e.g. 868MHz solutions, SMETS2 meter variants). Activating the NRO gives further certainty that supports the market to deliver these solutions.

Moreover, once the NRO is activated in full, the 'no backward step' energy supply licence conditions³ would cease to apply and all energy suppliers would be required to take all reasonable steps to install a SMETS-compliant smart meter in cases where they choose to replace a smart meter on change of supplier.

We had previously considered introducing the New and Replacement elements of the NRO separately, starting with the New Obligation. However, this would have several disadvantages, including:

- Potential additional costs and negative consumer impacts persisting for longer in cases where a traditional meter is installed but then subsequently soon replaced with a SMETS compliant meter;
- Additional regulatory complexity, particularly in respect of the extent to which the 'no backward step' licence conditions apply. Currently, the 'no backward step' licence conditions only apply to large energy suppliers (those with more than 250,000 domestic electricity or gas customers), with an exemption where the replacement meter is only able to operate as a pre-payment meter;
- Potential differences between treatment of consumers who want to benefit from a smart meter, depending on whether their circumstances are covered by a new or replacement scenario;
- Prolonged uncertainty within supply chains as regards what type of meters should be prioritised.

² See: <https://www.gov.uk/government/consultations/smart-metering-rollout-strategy>

³ Electricity Supply SLC 50.9 to 50.11; Gas Supply SLC 44.9 to 44.11.

Conclusion

To support consumers to benefit from smart meters as soon as practicable and to minimise the risks of additional costs, we consider there would be advantages in activating the NRO as soon as practicable after the 15 March 2019 SMETS1 pre-payment end-date.

The NRO is subject to 'all reasonable steps', which will provide energy suppliers with a degree of operational flexibility in light of technical or practical reasons, in emergency circumstances, or where a consumer wants to retain a traditional metering service.

We are minded to activate the NRO on 31 March 2019 and welcome views on this proposal.

Consultation Question

This consultation only seeks views on the following question:

- Do you agree with the proposal to activate the NRO on 31 March 2019? Please provide evidence to support your response.

Responding to this consultation

Your views should be submitted **by 19 February 2019** to smartmetering@beis.gov.uk or addressed to:

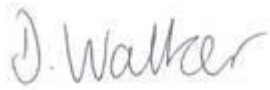
Smart Metering Implementation Programme
Department for Business, Energy & Industrial Strategy,
2nd Floor, 1 Victoria Street,
London SW1H 0ET

Information provided in response to this consultation, including personal data, may be subject to publication or release to other parties, or to disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

BEIS may publish the individual responses to this consultation and you should therefore let us know if you are not content for your response or any part of it to be published. If you indicate that you do not want your response published, we will not publish it automatically but it could still be subject to information requests as detailed above. If you do not want your individual response to be published, or to otherwise be treated as confidential, please say so clearly in writing when you send your response to the consultation. For the purposes of considering access to information requests, it would also 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.

Yours sincerely,

A handwritten signature in grey ink that reads "D. Walker". The signature is written in a cursive style with a large initial "D".

Daron Walker

Director of Smart Meters and Systems

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