Department for Business, Energy & Industrial Strategy

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

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

02 April 2019

Dear Colleague,

GOVERNMENT RESPONSE TO JANUARY 2019 CONSULTATION ON THE NEW AND REPLACEMENT OBLIGATION (NRO) ACTIVATION DATE

Energy supply licence conditions[1] enable the Secretary of State 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).

On 22 January 2019, the Government published a consultation[2] seeking stakeholder views on the proposal to activate the NRO on 31 March 2019.

Overview of Consultation Responses

We asked for stakeholder 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.'

We received 44 consultation responses from a range of stakeholders including large and small energy suppliers, meter asset operators (MOPs), meter asset providers (MAPs), trade bodies, distribution network operators and consumer groups.

Most respondents cited an interest in ensuring that smart meters become business as usual as soon as possible and around half of all respondents agreed with the Government's reasoning that setting a firm date for activating the NRO would drive the roll-out by

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

[2] See https://smartenergycodecompany.co.uk/latest-news/beis-consultation-new-replacement-obligation-nro-activation-date/

increasing regulatory certainty against which energy suppliers can plan. Two thirds of respondents however disagreed with the minded-to activation date and raised concerns about activating the NRO before market-wide SMETS2 readiness. Many of the respondents who did agree with the 31 March 2019 activation date also raised caveats, mostly around the ability to install SMETS2 meters in all circumstances.

Respondents who agreed with the minded-to activation date of 31 March 2019 argued that it would:

- Prompt all energy suppliers to engage in the SMETS2 roll-out to a larger extent than before;
- Ensure smart installations are the norm rather than the exception;
- Support the transition towards active network management, improved fault and asset management and deployment of low-carbon technologies;
- Bring forward the realisation of consumer benefits derived from SMETS2 installations;
- Enable the integration of smart metering data into energy advice to help consumers save money sooner;
- Provide a clear signal about the direction of travel in the energy system;
- Embed smart metering in a cost-effective manner in about 200,000 new homes being built each year across Great Britain.

Respondents who disagreed with the minded-to activation date raised concerns mostly around SMETS2 market readiness, though some acknowledged the benefits of Government setting a firm activation date, for example in driving SMETS2 market-wide readiness. Some also noted that the ‘all reasonable steps’ provision of the obligation provided a degree of operational flexibility.

The majority of energy suppliers argued that despite the good progress being made on transitioning to SMETS2 meters, more time was needed before they could provide a mature SMETS2 pre-payment service. As a result, they argued that activating the NRO on 31 March 2019 was premature and could result in offering an immature SMETS2 service in some circumstances. Respondents argued this could lead to sub-optimal outcomes for consumers. The suggestion was therefore not to activate the NRO until SMETS2 pre-payment has been operating at volume, in a range of circumstances, to evidence maturity.

Concerns were also raised around some energy suppliers not yet having SMETS2 meters that meet the required radio-frequency (RF) requirements in all regions.

Some respondents raised concerns about the timeframe between the NRO consultation and the proposed activation date, arguing it was too short to allow adequate preparations (including business process changes) for the operational, contractual, financial, and administrative requirements additional to what suppliers are already doing under their existing smart metering roll-out duty.

Small and non-domestic suppliers in particular felt they may be disproportionately affected by this as they tended to be further behind in the procurement and testing of their SMETS2 meters. They were concerned that activating the NRO too early could give large suppliers an unintended competitive advantage if they are able to provide a mature SMETS2 service sooner.

Some respondents argued that premature activation of the NRO could lead to an increased risk of some energy suppliers providing an immature SMETS2 service, driven by concerns about Ofgem enforcement action for non-compliance. It was argued that such an outcome could result in a poor customer experience.

Finally, some respondents warned that activating the NRO on 31 March 2019 could reduce efficiency and increase roll-out costs due to potentially more traditional meters being installed under 'all reasonable steps' than would otherwise be the case; a potential write-off of SMETS1 stocks; and unproductive downtime or loss of meter installers due to potential limitations on delivering a mature SMETS2 service.

Most respondents who disagreed with the 31 March 2019 activation date proposed alternatives that they considered would mitigate some of the concerns they raised. The alternative dates that were proposed ranged from 30 June 2019 up to 2021. Some respondents suggested time-limited derogations or exemptions, or allowing SMETS1 installations under the NRO.

Government Response to Consultation

Following consideration of the consultation responses, we now consider a 31 March 2019 activation date would not have given energy suppliers sufficient time to prepare for compliance with the NRO.

We have thus concluded that the NRO should be activated on 30 June 2019. A Direction letter will also be issued today.

The 30 June 2019 activation is intended to allow industry, including smaller energy suppliers, further time to prepare for compliance and to make further progress towards being in a position to deliver a mature SMETS2 service to their customers.

Delaying the activation date beyond June 2019 would reduce the potential of the NRO to drive the SMETS2 roll-out, and potentially delay the benefits for consumers of SMETS2 meters becoming the default metering offer in Great Britain.

We do not consider an exemption or derogation from the NRO or later activation date for pre-payment customers is the way to address the concerns that have been raised about the maturity of the SMETS2 pre-payment solution. We consider that pre-payment customers should not be excluded from the efforts of suppliers and the market to establish a mature SMETS2 solution and to take all reasonable steps to install a SMETS2 meter when a meter is being replaced or installed for the first time. Where a SMETS2 meter can be installed, it will provide important benefits, such as full interoperability without the risk of a meter change or temporary loss of smart functionality should the customer switch to a new supplier.

The NRO is subject to 'all reasonable steps', which we believe should provide energy suppliers with a degree of operational flexibility. There may be situations where suppliers may not be able to offer or install a SMETS2 meter, despite having taken all reasonable steps to do so, and will judge that it is in the best interests of the customer to proceed with a traditional or SMETS1 meter installation. For instance, the interests of the customer, especially vulnerable customers, could determine the type of meter that is selected. In such situations, suppliers should be ready to evidence to Ofgem the steps they have taken, and

are taking, to move towards the provision of SMETS2 services where they have not been able to do so by 30 June 2019.

Activating the NRO will provide further clarity on the regulatory transition to SMETS2, which should drive the market to deliver meters and solutions, which will ultimately benefit all suppliers as well as consumers.

We expect industry to continue to work together to drive the development of the full range of SMETS2 solutions as soon as possible (including meter variants, Alt-HAN solutions, and a smart post-emergency metering service) so as to minimise the number of cases in which it might not yet be possible to install a meter compliant with the extant version of SMETS.

In accordance with the standard licence conditions, the 'no backward step' energy supply licence conditions[3] will cease to apply from the date on which the NRO is activated and all energy suppliers will be required to take all reasonable steps to install a SMETS-compliant meter in cases where they choose to replace a smart meter on change of supplier.

Government View on Other Issues Raised in the Consultation

A number of other concerns were raised by respondents in addition to the views on the minded-to activation date.

Smart post-emergency metering services

Energy network operators who responded to this consultation sought to understand the potential impact of activating the NRO on smart post-emergency metering services (PEMS) arrangements.

The responsibility for provision of emergency metering services sits with suppliers[4]. We expect industry to continue working towards enabling the implementation of an enduring smart PEMS solution, as we believe this represents the best option for customers, energy suppliers and network operators.

Consumer choice

Some respondents requested Government support to maximise the level of consumer acceptance or signalled that they view the NRO as an opportunity to reach customers who are currently refusing a smart meter.

While we welcome industry appetite for driving consumer acceptance, activation of the NRO does not represent a change to our longstanding position that smart meters remain subject to customer choice. In line with Ofgem's May 2018 open letter[5], we reiterate that effective engagement is a critical element of suppliers' obligations to take all reasonable steps to

[3] Electricity Supply Standard Licence Condition (SLC) 50.9 to 50.11; Gas Supply SLC 44.9 to 44.11.

[4] See https://www.ofgem.gov.uk/publications-and-updates/open-letter-emergency-metering-services-both-gas-and-electricity-smart-meters

[5] See https://www.ofgem.gov.uk/publications-and-updates/smart-meter-roll-out-energy-suppliers-progress-and-future-plans-open-letter-2018

install smart meters, and that overly coercive and repetitive approaches to consumer engagement can be counterproductive to the successful achievement of roll-out obligations.

Necessity of the NRO

A small number of respondents challenged the necessity of the NRO altogether given, in their view, the presence of existing commercial and regulatory incentives to install a smart meter and the increasing scarcity of traditional meters.

However, the NRO applies specifically at the point at which a meter is replaced or is installed for the first time. It complements the roll-out obligation and is a further part of implementing the objective of making SMETS2 the default metering offer in Great Britain up to and beyond 2020.

Yours sincerely,

Daron Walker

Senior Responsible Owner, Smart Metering Implementation Programme

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

List of 44 respondents

Category	Respondent	
Consumer Group (2)	Citizens Advice Which?	
Delivery Partner (1)	Smart Energy GB	
DNO/GDN/IGT/iDNO (8)	Cadent Gas Electricity North West ESP Utilities Group Northern Gas Networks Northern Powergrid Southern Gas Network Wales and West Utilities Western Power Distribution	
MAP/MOP (9)	BUUK Infrastructure Calvin Capital Energy Assets Foresight Metering IMServ Lowri Beck Services Macquarie Energy Leasing National Grid Smart Northern Powergrid Metering	
Other (2)	Energy Saving Trust Stark	
Energy Supplier (18)	Bristol Energy Centrica E.ON EDF Engie Green Network Energy Npower Opus Energy & Haven Power Orsted	OVO Energy PFP Energy Scottish Power Smartest Energy Solarplicity SSE Tru Energy Utilita Utility Warehouse
Trade Body (4)	AIMDA AMO Energy UK ICoSS	