

EXPLANATORY MEMORANDUM TO

THE MODIFICATIONS TO THE CONDITIONS OF THE SMART METER COMMUNICATION LICENCES

(SMART METERS No. 4 of 2017)

1. Introduction

- 1.1 This explanatory memorandum has been prepared by the Department for Business, Energy and Industrial Strategy (BEIS) and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

- 2.1 These modifications further develop the regulatory framework to support the roll-out and operation of smart meters in Great Britain, in line with the Government's policy aim for every home and smaller business in Great Britain to be offered a smart meter by the end of 2020. They modify conditions of the smart meter communication licences (the "DCC Licence") granted by the Secretary of State to Smart DCC Ltd ("DCC"), pursuant to sections 7AB(2) and (4) of the Gas Act 1986 and sections 6(1A) and (1C) of the Electricity Act 1989, on 20 September 2013 following a competitive process.

3. Matters of special interest to Parliament

Matters of special interest to the Joint Committee on Statutory Instruments

- 3.1 Not applicable: these are licence modifications under section 88 of the Energy Act 2008 and not a Statutory Instrument.

Other matters of interest to the House of Commons

- 3.2 Not applicable: these are licence modifications under section 88 of the Energy Act 2008 and not a Statutory Instrument.

4. Legislative context

- 4.1 Section 88 of the Energy Act 2008 gives the Secretary of State the power to modify certain licences and industry codes for specified purposes. These modifications are modifications to conditions of the DCC Licence required to facilitate the installation of smart meters.

5. Extent and territorial application

- 5.1 These licence modifications extend and apply to Great Britain.

6. European Convention on Human Rights

- 6.1 As these modifications are not subject to the affirmative resolution procedure and do not amend primary legislation, no statement is required.

7. Policy background

What is being done and why

- 7.1 Together with its service providers, DCC provides a smart meter communication service in Great Britain. That is the means by which energy suppliers, network operators and others can communicate remotely with smart meters, including after a customer changes supplier. The revenue that DCC is permitted to recover each year is controlled under the DCC Licence. It includes a Baseline Margin (as defined in the DCC Licence) that is put at risk depending on the performance of DCC against incentives. BEIS set such incentives for DCC to take its

systems live in a timely manner in 2016. The delivery of further DCC projects on which the success of the smart meter roll-out depends is not currently incentivised.

- 7.2 These modifications introduce a number of provisions into the DCC Licence that are required to pave the way for energy suppliers to accelerate the installation of smart meters and their enrolment in DCC, to ensure they remain smart when a customer changes supplier. Modifications to the DCC Licence introduced through these modifications allow for the establishment of:

- 7.2.1 one or more schemes that would set project delivery incentives for DCC to successfully deliver specific future projects by placing associated Baseline Margin at risk against these incentives;
- 7.2.2 a requirement for BEIS to consult on the details of any particular scheme prior to its introduction.

Consolidation

- 7.3 The Government does not intend to consolidate the DCC Licence. A consolidated version of the DCC Licence will be available on Ofgem's website¹ once these modifications come into force.

8. Consultation outcome

- 8.1 BEIS consulted DCC, Ofgem and others as appropriate, in accordance with section 89 of the Energy Act 2008, on these modifications to the DCC Licence between 21 July 2017 and 18 August 2017.
- 8.2 A total of six responses to the consultation were received. The responses were on balance supportive of the modifications, though there were a number of comments with an eye to the design of the specific incentive arrangements themselves. BEIS will consult separately on the proposed content of specific schemes in due course².

9. Guidance

- 9.1 The Government does not intend to publish any guidance relating to these modifications.

10. Impact

- 10.1 An updated Cost Benefit Analysis for smart metering was published in November 2016. It estimated the costs and benefits associated with the GB roll-out of smart meters and identified a substantial net benefit of £5.7 billion for the period to 2030 from the programme³, yielding £1.5 of savings for every £1 spent. The estimated overall direct impact on businesses of the roll-out of smart meters is an equivalent annual net cost of £36 million.
- 10.2 The impact on the public sector is nil.
- 10.3 The assessment published in November 2016 of the effect that the smart meter roll-out will have on the costs of business and the voluntary sector is available at: <https://www.gov.uk/government/publications/smart-meter-roll-out-gb-cost-benefit-analysis>

11. Regulating small business

- 11.1 These modifications to the DCC Licence will have no impact on small businesses.

¹ <https://www.ofgem.gov.uk/licences-codes-and-standards>

² Please refer to <https://www.smartenergycodecompany.co.uk/news-and-useful-links/latest-news> for a copy of the conclusions document.

³ Central projections, 2011 prices, discounted to 2016

11.2 To minimise the impact of the requirements on small businesses (employing up to 50 people), the approach taken by the Government is to consistently take steps to ensure the regulatory burden is minimised and that the proportionality of changes is reviewed, on a regular basis.

11.3 In designing smart metering regulations the Government has engaged in extensive consultation with all affected parties, including small businesses, to ensure that a broad range of stakeholders' views is considered and to facilitate proportionality.

12. Monitoring and review

12.1 The Government's Monitoring and Evaluation Strategy will ensure that the smart meter roll-out is at all stages subject to a comprehensive and integrated review and evaluation process. Ofgem will be responsible for monitoring compliance with licence conditions and taking enforcement action where necessary.

13. Contact

13.1 Please contact Duncan Stone at the Department for Business, Energy and Industrial Strategy (tel: 0300 068 5525 or email: duncan.stone@beis.gov.uk) with any queries relating to these modifications.