

EXPLANATORY MEMORANDUM TO
MODIFICATIONS TO THE SMART ENERGY CODE
(SMART METERS No 2. of 2018)

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 rollout 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 sections of the Smart Energy Code ("the SEC").

3. Matters of special interest to Parliament

Matters of special interest to the Joint Committee on Statutory Instruments

- 3.1 None: these are code 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 None.

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 fall within the scope of this power and are changes to the SEC required to facilitate the operation of smart meters.
- 4.2 Since 2013, BEIS (formerly the Department of Energy and Climate Change) has made a number of licence and code modifications to develop the smart metering regulatory framework. These modifications further develop that framework.

5. Extent and Territorial Application

- 5.1 These 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 Changes are being made to the SEC, which sets out the detailed operational arrangements for smart metering systems and the rights and obligations of different organisations involved: Smart DCC Ltd ("DCC"), energy suppliers, network

operators and other users of smart metering systems. These modifications to the SEC: support the introduction of Dual Band Communications Hubs (“DBCHs”), improving in-home communications and increasing flexibility for energy suppliers; and permit DCC to carry out “production proving”, which will allow it to prove the functionality of changes to the live systems that it uses to communicate with smart metering devices installed in consumers’ premises.

Supporting the introduction of Dual Band Communications Hubs

- 7.2 Communications Hubs (“CHs”) establish a home area network enabling smart metering equipment, including an In-Home Display (“IHD”), to communicate within consumers’ premises. DCC is responsible for providing CHs to energy suppliers who install them in consumers’ premises as part of smart meter installations. DCC charges energy suppliers in accordance with charging arrangements for CHs set out in the SEC.
- 7.3 DCC will be introducing a new type of CH later this year. These new DBCHs will allow smart meter installations to be completed in consumers’ premises which (because of the way they are built, for example) require a greater signal propagation range because, for example, the gas meter or IHD is situated too far away from the CH to be reliably served by current Single Band Communications Hubs (“SBCHs”). It is expected that a DBCH will be required for technical reasons in around one quarter of all consumers’ premises.
- 7.4 The charging arrangements for CHs already contained in the SEC need to be amended to reflect the introduction of DBCHs. These modifications mean that the development costs for DBCHs will be recovered from energy suppliers via a fixed charge in proportion to their number of enrolled smart metering systems; and the incremental device costs will be amortised and charged on a monthly basis to those energy suppliers installing DBCHs.
- 7.5 These modifications also introduce Configuration Settings Tables into the SEC. These tables set out various technical settings to be applied to DBCHs when they are first installed and to be maintained subsequently. The introduction of these settings will minimise the risk of local communications becoming overloaded, which could lead to consumers and DCC Users experiencing delayed or failed updates. Inconsistency in configuration settings at installation and subsequently could also lead to more complex diagnostics, and therefore delay in addressing issues.
- 7.6 In July 2017 DCC consulted and subsequently set out proposals relating to the provision of CHs in the Fylingdales area of North Yorkshire where the standard, wide area communications network for smart metering is not appropriate. DCC concluded that only DBCHs would be provided in this area for the reasons set out in its consultation and response. These modifications facilitate this so that DCC does not have to provide SBCHs in relation to this area.

Production proving

- 7.7 These modifications also give DCC the capability to “prove” new functionality on its live systems. This permits DCC to carry out testing using its own live systems together with meters and other devices installed in its own facilities (rather than in consumers’ premises). The intention is to ensure new functionality does not undermine live operations affecting communications with smart meters already installed in consumers’ premises.

Consolidation

- 7.8 The Government does not intend to consolidate the SEC. A consolidated version will be available on the SEC website¹ once these modifications come into force.

8. Consultation outcome

Supporting the introduction of Dual Band Communications Hubs

- 8.1 In accordance with section 89 of the Energy Act 2008, BEIS has consulted Ofgem, the SEC Panel, SEC Parties and others as appropriate². The consultation ran from 20 December 2017 to 12 February 2018.
- 8.2 A total of eight responses to the consultation were received, from DCC and energy suppliers. There was broad support for the proposals. Some changes to the proposed modifications to the SEC have been made to reflect points raised in the consultation, and discussions have been held with some stakeholders on specific points.

Production proving

- 8.3 In accordance with section 89 of the Energy Act 2008, BEIS has separately consulted Ofgem, the SEC Panel, SEC Parties and others³. The consultation ran from 14 February to 14 March 2018. These modifications need to be made promptly to enable DCC to implement the system changes required for production proving in advance of the two major system changes planned for later this year.
- 8.4 During the consultation period, the proposals were widely promulgated across enduring governance groups and several existing working groups within the Smart Metering Implementation Programme. A public presentation and discussion of the proposals was also held.
- 8.5 We received 12 responses to the consultation, from energy suppliers, DCC and the SEC Panel. There was general support from industry for the introduction of production proving, although some respondents will wish to have further details from DCC regarding implementation prior to the powers being used. Some changes to the legal drafting have been made to reflect certain legal drafting points some respondents raised through the consultation.

9. Guidance

- 9.1 The Government does not intend to publish guidance in respect of the modifications set out here. The Smart Energy Code Administrator and Secretariat has obligations to provide advice and support to SEC Parties. The DCC also publishes information about charging and engages its users regularly on these matters.

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 rollout of smart

¹ <https://smartenergycodecompany.co.uk/the-smart-energy-code-2/>

² This Explanatory Memorandum; the consultation, associated response and supporting documents can be found at: <https://smartenergycodecompany.co.uk/latest-news/beis-consultations-provision-of-communications-hubs-and-production-proving-capability>

³ This Explanatory Memorandum; the consultation, associated response and supporting documents can be found at: <https://smartenergycodecompany.co.uk/latest-news/beis-consultations-provision-of-communications-hubs-and-production-proving-capability>

meters and identified a substantial net benefit of £5.7 billion for the period to 2030 from the programme⁴. The estimated overall direct impact on businesses of the rollout 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 rollout 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 support energy suppliers' management of the rollout of smart meters.
- 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 proportionality maintained.

12. Monitoring and review

- 12.1 The Government's Monitoring and Evaluation Strategy will ensure that the smart meter rollout 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 Robert Thornes at the Department for Business, Energy and Industrial Strategy (tel: 0300 068 5128 or email: Robert.Thornes@beis.gov.uk) with any queries relating to these modifications.

⁴ Central projections, 2011 prices, discounted to 2016.