

To all with an interest in smart metering

9 December 2010

Dear Colleague,

### **Smart Metering Programme – Interim Report on Phase 1 and future arrangements**

This open letter provides an interim report on where we have reached now that the consultation on the Prospectus is closed. At this stage, you will appreciate that no final decisions have been taken – we expect these early next year. We also wanted to advise you of the organisation arrangements the Government has decided to introduce to manage the implementation phase of this major programme. In addition we want to acknowledge the huge commitment shown by the industry and other stakeholders in responding to the consultation, requests for information and expert groups.

#### **Introduction**

Smart meters have a vital role to play in our transition to a low carbon economy. They will provide consumers with the information they need to manage their energy usage effectively; encourage innovative services in the management of energy supply; provide opportunities for the industry to streamline processes; and pave the way for smart grids.

The Government and Ofgem, the energy regulator, published for consultation in July a smart metering Prospectus. This set out proposals for how smart metering will be delivered, including design requirements, central communications, data management and the approach to rollout. We are reviewing the extensive and helpful responses to the consultation, and undertaking further stakeholder engagement and analysis. We will publish our response to the consultation early next year, including the conclusions we have reached and the next steps.

We received around 300 responses to our consultation, from the energy industry, service providers, consumer groups, academics, and a wide range of energy users and other stakeholders. Responses have generally welcomed the key proposals in the Prospectus. Many responses give individual and corporate commitment to the rollout of smart metering. Responses are thoughtful, considered and provide valuable insight and evidence for our analysis.

In addition, we have been working closely with stakeholders in a range of expert groups and workshops, testing proposals and options at a greater level of detail and using extensive evidence submissions. Stakeholders have shown strong commitment and openness in providing evidence that is valuable to our assessments. We would like to thank all respondents and stakeholders for their involvement.

#### **The Consumer Experience**

Positive consumer engagement is vital to delivering smart metering benefits in terms of reductions in energy consumption and carbon emissions. The programme team is, working closely with consumer groups and other stakeholders to identify mechanisms to promote consumer engagement.

Consumers, and in particular vulnerable consumers, should continue to be protected in a smart world. Ofgem is proposing to bring forward a package of measures in the spring to provide for the continued safeguarding of consumers' interests. This will draw on work with consumer groups, and the programme's Privacy and Security Advisory Group, to address potential issues. It will include, in particular, clear rules around switching from credit to prepayment and disconnection, data privacy requirements for early smart meter installations and measures to enable consumers to change supplier in the transition to a smart environment.

A key element of the consumer experience of smart metering will be the installation visit. The Prospectus proposed to require suppliers to adhere to a code of practice for installation. There was almost unanimous support for this across consultation respondents. Energy suppliers and consumer groups in particular have provided valuable input to the programme on what any such code might seek to achieve.

If the Government decides that a code of practice is an appropriate way to proceed, there is broad agreement that the objectives of a code should be to promote a positive consumer experience of the smart meter installation and help facilitate the longer-term behavioural change necessary to deliver programme benefits. In this way, any code should promote consumer confidence about the installation process; require that consumers are provided with helpful information in an accessible format on how to benefit from their smart meters; and require that a good standard of service is delivered to all consumers. The programme team is considering the potential scope of any such code and how one could build on existing consumer protections and industry codes.

We are also working with a wide range of stakeholders on the potential governance arrangements for any code. Consultation responses indicated a range of views on the appropriate balance between mandated licence conditions and industry self governance. There was also strong support for broad stakeholder engagement in the development of a code and for any code to be sufficiently flexible to be adapted in the light of experiences from early smart meter deployments.

## **Central Communications and Data Management**

Consultation responses show strong support for DataCommsCo (DCC) and its establishment as a body which procures and manages service providers to deliver the required communications, security and data services. We are also seeing a very strong appetite in the marketplace from companies seeking to become DCC, or to become service providers to DCC. We are confident that a competitive framework can be established for the procurement of DCC and its services that will deliver an efficient, effective, flexible, value for money service for consumers, the industry and GB plc.

The establishment of DCC and its services is a highly complex activity, building a complete new GB-wide entity with reach into every home, with the potential for significant growth. We have received a range of responses on the timescales required to establish DCC's services to an appropriate degree of robustness; this in turn is dependent on the initial and enduring scope of DCC. We are working closely with industry and service providers to inform our analysis of the optimum scope of, and timescale for, establishment of these services.

## **Rollout**

The Government has set ambitious goals for smart metering in Great Britain. It continues to consider the most appropriate timetable for rollout, including exploring the opportunities for acceleration. The Government is determined to ensure any acceleration is feasible and commensurate with delivering the rollout efficiently and effectively while providing a good consumer experience. We welcome industry's openness in contributing evidence to our analysis.

In addition, we are also focused on the challenge of putting in place the necessary building blocks to enable the rollout to get off to a good start. Under any scenario the interim period before DCC is established will be very important. The Government and Ofgem will continue to work through these changes as a priority. The deployments that take place in this period are vital to helping provide a solid foundation for the rollout to follow, not least to deliver a positive consumer experience and build industry readiness. We look forward to continuing this engagement with industry, consumer groups and other stakeholders to develop a successful foundation for the programme.

## **Functional Requirements**

As part of the Prospectus, we provided a Functional Requirements Catalogue with over a hundred proposed requirements. We have conducted extensive analysis of the consultation responses on the catalogue and discussed many in detail with our Smart Meter Design Group (SMDG). The analysis undertaken shows that there is broad agreement on over 90% of the proposed requirements .

There are a small number of areas where additional evidence has been submitted. Specific areas include functionality to alert suppliers and networks when the consumer's electricity supply is lost and the proposed requirement to hold at least 12 months consumption data stored at the meter. Further consideration of these areas is being undertaken by the programme team and a reviewed and updated Functional Requirements Catalogue will be re-issued in the New Year. The Catalogue is an essential pre-requisite to the development of technical specifications. This, in turn, is key to suppliers' ability to procure smart metering equipment. It is therefore firmly on the programme's critical path.

In the Prospectus, we set out a process and timescale for developing and gaining approval of the functional requirements and technical specifications. This stated that stakeholders should be closely involved in the production of the technical specification, so that the programme team can use the expertise in the stakeholder community to inform our decision-making process. There has been strong support for this process and timescale from respondents. We are now developing the approach and establishing an appropriate governance regime. Consultation respondents have noted that privacy and security are key elements that will drive achievement of these timescales and these dependencies are specifically included in the proposed approach.

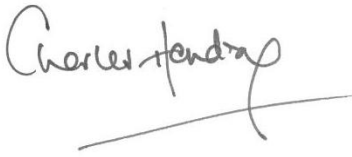
## **Conclusion**

The response to the Prospectus consultation has been encouraging and the programme team is working hard to analyse the comments and reflect on them in our response to consultation for publication in the New Year. The programme team will continue its strong involvement with industry, consumer groups and broader stakeholders to ensure we deliver the benefits that smart meters can deliver for GB.

Looking ahead to the implementation phase, the Government has decided that, in view of the scale of this programme and the importance of government accountability for its delivery, DECC should assume direct responsibility for managing the implementation phases of this programme. These new arrangements will take effect from the start of Phase 2. Ofgem will continue to play a vital role, in the development and implementation of the regulatory arrangements that underpin the smart metering rollout and through its role to oversee the effective functioning of energy markets. This will include working with DECC on the design, licensing and regulation of the DCC, and on protecting the consumers' interests in all aspects of the programme.

Smart metering will be one of the largest changeover programmes that the energy industry has ever undertaken. Its successful delivery is dependent on the continued commitment of the industry and other stakeholders. We are grateful for all the efforts you have made so far and look forward to working with you going forward.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'Charles Hendry', with a long horizontal stroke extending from the bottom of the signature.

**Charles Hendry MP**  
Minister of State for Energy

A handwritten signature in dark ink, appearing to read 'Mogg', with a stylized, cursive script.

**The Lord Mogg KCMG**  
Chairman, Gas & Electricity Markets Authority