

Richard Leyland  
Head of Smart Metering Team  
Department of Energy and Climate Change

28<sup>th</sup> September 2010

Dear Richard

**Consultation on Smart Metering for Electricity and Gas  
Initial Response**

1. I am delighted that the Government has agreed that energy suppliers must lead the deployment of smart metering. We are best placed to understand customer requirements and to engage with them in the delivery of benefits through smart metering. British Gas is committed to taking a leadership role in ensuring a successful deployment of smart meters, delivering benefits to customers and transforming our industry.
2. We are encouraged to see that industry work groups have now been established. These, together with an Industry Co-ordination Group, will go a considerable way to delivering the improved engagement that we have been seeking since the creation of the Smart Metering Industry Programme.

**Delivery confidence can be increased by harnessing industry expertise and outsourcing key specialist activities**

3. Whilst we believe Ofgem together with DECC should maintain overall responsibility for the Programme, we are keen also to accelerate progress and improve overall confidence in delivery. This, we believe, can be achieved by a combination of outsourcing project management and procurement and transferring responsibility to industry for much of the very detailed work for eg detailed meter specifications.
4. Ofgem's core expertise lies in economic regulation and by outsourcing these activities Ofgem will, in our opinion, improve delivery and most likely, achieve efficiencies. Ofgem and DECC have invested considerable effort in getting up to speed with smart metering. It is important therefore that overall responsibility for the programme is not changed. Ultimately DECC and Ofgem are accountable for the programme.
5. Once policy has been set, we expect industry to be drawn into an even more active role as we then have a good track record in working together. Codes of Practice, industry processes, and contractual requirements of the Data Communications Company are all areas where, as an industry, we have a high level of expertise and a real willingness to lead.

## **Rollout can be accelerated and de-risked by a simple correction to the proposed regulatory architecture**

6. British Gas has already announced our ambitions to install two million smart meters by 2012. We have developed a meter specification that meets the functional requirements set out by DECC and Ofgem, invested in IS architecture and business process redesign, and created a new metering business. This leaves us very well placed to complete the deployment of smart meters to the substantial majority of our customers (thought at this time to be over 70%) by 2017 – three years ahead of the previous government's ambitions.
7. To put in place our meter specification, with the supporting commercial arrangements and manufacturing lead times, has taken two years. Much of this work would need to be repeated if a different meter specification is required. This would mean that the actual start date would be delayed to late 2013, and as a consequence two years would be added onto deployment.
8. We fully support the phased implementation approach suggested by Ofgem and DECC, but critical to this is earlier commercial certainty regarding the meter to allow the deployment of “compliant” meters to begin by 2012. This can be achieved by separating the issue of interoperability from the delivery of the impact assessment benefits. Interoperability only has potential to impact customers who change supplier (and these impacts can be mitigated) whereas acceleration of the delivery of smart meters benefits all customers, and so should be the priority. This prioritisation needs to be reflected in the regulatory architecture.
9. British Gas has provided a paper to the Interoperability Sub-Group of the Data and Communications Group setting out our vision of how interoperability could be assured in short timescale and at low cost.

**Immediately after this consultation it should be mandated that all meters must contain the “smart” functionality that is necessary to deliver the IA by a fixed point in time.**

10. As an industry we have spent over three years considering smart metering requirements. We already have the Energy Retail Association Requirements, Energy Network Association Requirements and our own more detailed specification of requirements, all of which are well-aligned. We should be able to use the work already done by industry to land on the meter functionality that is required before the end of the year.
11. Once the requirements of the meter have been identified, industry should be able to take on the role of translating these into a lower level meter specification.

**Meters meeting the ‘smart functionality’ necessary to deliver the IA should be deployed as soon as possible. All suppliers should be required, from a set date, to meet the detailed meter specifications to ensure future installations are interoperable.**

12. This would allow energy suppliers to start mobilising their meter supply chain some eighteen months sooner and significantly reduce risk and cost from the Programme.

**A positive customer experience is essential, but the proposed consumer protection measures could do more harm to consumers than good and undermine the IA**

13. It is essential that customers get a positive experience from the introduction of smart metering. British Gas has already developed a Customer Charter following discussions and inputs from our own Customer Panel, Consumer Focus and FPAG that demonstrates our commitment to building customer confidence in smart meters. We are also supportive of an additional Energy Supplier Code of Practice that covers, for example, remote disconnect. This will stimulate broader industry-wide confidence in smart metering.
14. However, care must be taken not to undermine the benefits of smart metering by strangling suppliers with excessive red tape. We need to be able to collect and use data in order to offer fit-for-purpose tariffs (that help customers switch load and deliver demand-side management). We also need data to reduce theft and to prevent customers getting into unaffordable debt - all benefits included in the Smart Metering Impact Assessment. Most importantly we must truly engage with customers in order to help them reduce energy consumption – what better way before, during and after installations to do this than to explain the products and services available that help them to achieve this?
15. We have set out in our response how your proposals could be enhanced but believe improved supplier representation on the Consumer Advisory Group would greatly improve the policy-making process by providing a practical and balanced perspective.

**Simplification of our industry arrangements and reform to the meter inspection regime are essential if the benefits of smart metering are to be realized**

16. We are pleased that the potential to simplify our industry is now being seriously considered. However, we remain concerned that the potential benefits of reform and the costs of inaction are not fully recognised. We shall be engaging extensively with your programme to help address this.
17. For example, the assumptions that have been made about the meter inspection regime are fundamentally flawed and this results in a £2.69 billion risk to the IA, which we urge Ofgem to address as a matter of

urgency. We have submitted a formal derogation request to Ofgem in lieu of the current proposals that will increase rather than reduce customer safety. On 28<sup>th</sup> October we shall be publishing further details of this request to the industry. Further to this I am keen that my team works closely with you to help ensure that we can remove a significant barrier to the delivery of the IA benefits.

18. More detailed responses to your consultation questions are attached to this letter. Should you require any further information please do not hesitate to contact me or Petter Allison – we would be happy to discuss any of these aspects with you and your team.

Yours sincerely

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