

Geoff Hatherick
Department of Energy and Climate Change,
3 Whitehall Place,
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23 August 2013

Dear Geoff

Ofgem's response to DECC's open letter on proposed amendments to non-domestic roll-out licence conditions

We welcome the opportunity to respond to your open letter on proposed amendments to non-domestic roll-out licence conditions. Ofgem regulates the gas and electricity markets in Great Britain. We have an important role in ensuring that the interests of consumers remain protected both during the transition to smart metering and in the enduring framework. We will also play a key role in monitoring and, where appropriate, enforcing compliance with any new regulatory obligations relating to smart and advanced meters.

We welcome your proposal to address the identified ambiguities in the current drafting of licence conditions with regards to contractual arrangements for the installation of advanced meters and the treatment of non-domestic consumers in Profile Classes 1 and 2. It is important that suppliers have clarity with regards to the obligations placed on them. With regards to smart metering data access, we agree that non-domestic consumers with smart meters should not be less protected than similar consumers with advanced meters. We look forward to engaging with you bilaterally to ensure the amended legal drafting is fit for purpose.

Your open letter also seeks views as to whether it is appropriate to extend the period during which advanced meters may be installed at smaller non-domestic sites as a contribution towards the overall smart metering roll-out obligation. Since DECC's policy intent was finalised in December 2009, this 'advanced meter exception' has been due to end on 5 April 2014. The specification for compliant smart meters was approved in December 2012¹ and DECC has undertaken a great deal of work to ensure suppliers are able to finance and roll-out these meters, culminating in your Foundation Smart Market response in June². Given the length of time the existing end date has been known and the work DECC has done to encourage participation in Foundation, we believe there is no structural or regulatory obstacle that would necessitate an extension of the existing deadline.

In the absence of such an obstacle, the key driver of any decision to extend the deadline should be an assessment of the costs and benefits of the identified options. In this respect, you have already identified in your open letter that, although there are benefits associated with installing smart (rather than advanced) meters for both fuels, it is likely that the benefits will be greater in electricity than in gas. This is largely as a result of smaller non-domestic consumers accounting for a significant percentage of overall electricity

¹ <https://www.gov.uk/government/publications/smart-metering-implementation-programme-technical-specifications>

² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/225054/Foundation_Smart_Market_FINAL.pdf

consumption and the benefits associated with smart electricity grids, which are facilitated by smart meters. However, as stated in your open letter, DECC decided in 2009 to take an aligned approach for both fuels for consumer engagement reasons. The benefits of smart electricity grids are substantial. The latest version of DECC's smart metering impact assessment cites a net benefit of £1.5bn from smart electricity grids from 2010 to 2020 with further benefits of £2.6bn accruing from 2020 to 2050³. Extending the advanced metering exception for electricity could put these benefits at risk. In addition, the cost savings from allowing gas advanced meters to be installed over an extended period are likely to be higher than in electricity, as existing traditional gas meters can more readily be upgraded to comply with the advanced meter obligation, avoiding the need for a costlier and more disruptive replacement.

Given this differential in benefits and costs, DECC should actively consider different approaches to extending the deadline in electricity and gas. Extending the exception in gas but not in electricity may prove to be the policy option that is most beneficial to energy consumers.

We recognise and appreciate your constructive engagement with us and other stakeholders thus far on crafting this policy. We look forward to further discussions in the coming months as evidence is gathered and the policy is developed. If you have any questions about this response in the meantime, please contact Philippa Pickford, philippa.pickford@ofgem.gov.uk or Paul Fuller, paul.fuller@ofgem.gov.uk.

Yours sincerely

Maxine Frerk
Partner, Retail Markets and Research

³ See page 57 of DECC's latest Impact Assessment:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48803/4906-smart-meter-rollout-domestic-ia-response.pdf