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Monday 25th November 2019
(submitted online)

Dear Cecilie,

Electricity North West Limited response to Ofgem's statutory consultation on the post-2020 smart meter rollout supplier reporting requirements

We welcome the opportunity to respond to Ofgem's proposed changes to the supplier licences to facilitate the new phase of the smart meter rollout. Suppliers are central to the delivery of the target of 85% coverage of smart meters in Great Britain by the end of 2024. ENWL's experience is that accurate reporting including forecasting of smart meter installations by suppliers per distribution network area is very important to the success of the rollout from a customer perspective.

As well as these proposals for licence changes for suppliers, it is also necessary for a corresponding consultation on licence changes required for Distribution Network Operators (DNOs). It is important that the DNO licence is updated so that the funding of DNO activities which support a good customer experience can continue to be recovered during the new rollout phase, including cutout¹ replacements, the DCC costs and IT infrastructure. DNOs are vital to the rollout of smart meters, as they need to complete replacement of some types of cutouts so that they can accommodate a smart meter, to fund the licence fees of the DCC as they are required to do, and also develop our own IT infrastructure required to process the smart meter data provided by the DCC.

Currently there is a big difference between the numbers of smart meters installed in the North compared to the South. This has largely been due to the challenges experienced in establishing the communications network in the North, which meant that the connectivity of smart meters to the DCC database has been very limited. There is now a significant opportunity for the North to catch up with the volumes of smart meters already installed in the South.

For these reasons, ENWL believes that the reporting of smart meter installations should be done on a DNO area basis. This will help to ensure that the regional differences in smart meter coverage are reported transparently and will identify areas where installations need to be increased to ensure consistency with the rest of the country and to allow us to better plan how to successfully enable this next rollout phase.

We raised these issues and others in more detail in our recent response to the BEIS Delivering A Smart System: Smart Meter Policy Framework Post 2020 consultation which

¹ The electricity network infrastructure that connects to the smart meter.

closed on Monday 11 November 2019. We are happy to share the response and have appended the full text to this letter below.

Please do not hesitate to contact me or Tom Selby (07824 321980) if you want to discuss any aspect of this response.

Yours sincerely,

A handwritten signature in black ink that reads "Paul Auckland". The signature is written in a cursive style with a large initial 'P' and a long, sweeping underline.

Paul Auckland

Appendix: ENWL response to the BEIS Delivering A Smart System: Consultation on a Smart Meter Policy Framework post 2020.

<https://www.gov.uk/government/consultations/smart-meter-policy-framework-post-2020>

Monday 11th November 2019
(submitted online)

Dear Smart Meter Implementation Programme team,

Electricity North West Limited response to the Smart Meter Policy Framework post 2020 consultation

Electricity North West Limited (ENWL) maintains, operates and upgrades £12bn of electricity infrastructure across the North West. This consists of 13,000 km of overhead power lines and more than 44,000 km of underground electricity cables and much more. We deliver over 25 terawatt hours of electricity through our network to 2.4 million customers across an area of 12,500 square kilometres and invest £1m per day to meet today's needs and undertake the transition towards a more decentralised, digitised and decarbonised energy system. We serve the diverse communities between the Lake District to the city of Manchester and all the towns and villages in-between.

We welcome the opportunity to respond to the questions in the consultation about the next phase of the smart meter rollout. The installation of smart meters is an important step in the transition to the energy system of the future and will enable a range of consumer benefits, whilst particularly underpinning greater digitisation and decarbonisation.

As one of the Distribution Network Operators (DNOs) in the North of England, we are very much aware of the communications issues that the DCC has experienced in setting up their network in the region that is served by Arqiva, which we understand covers the North of England regions (North West, North East and Yorkshire and Humber) and Scotland. We are reassured by reports that these issues are being addressed and will be fully resolved by the end of 2019. This will support more customers in our area benefitting from smart meters. It is key that the communications network is fully operational as this will drive increased customer acceptance of smart meters and in doing so support a major uplift in installations. Currently the number of smart meters in the North is lower than in the South which means there will be an opportunity to shift some of the focus of the rollout to the North to successfully deliver 85% smart meter coverage.

We actively support the smart meter rollout, including developing our necessary IT systems to make use of the information we will receive. Our customers fund a portion of the central systems and work required on our infrastructure in customers' homes where smart meters are to be fitted. It will assist in ensuring a positive customer experience if suppliers are able to more accurately report the rate of installations and realistically schedule these so that both suppliers and DNOs can resource their workforces to be able to deliver the rollout as planned. To ensure we can plan most effectively to support the new rollout phase we need suppliers to provide us accurate smart meter installation plans reported by DNO region, so that DNOs and suppliers know where they need to prioritise their resourcing.

Finally, the already agreed DNO cost recovery mechanism Ofgem has in place for smart meter cutout replacements by DNOs, the proportion of DCC licence costs paid by DNOs and our own IT costs currently ceases in March 2021. These Ofgem DNO arrangements need to enter a new phase and should be extended as the rollout has entered a new phase which we trust Ofgem will now take forward.

Please do not hesitate to contact me or Tom Selby (07824 321980) if you want to discuss any aspect of this response.

Yours sincerely,

Martin Deehan

Operations Director (North)

Appendix 1: Responses to consultation questions

Post 2020 Framework Proposal

Question 1: Do you agree that there is a need for an overarching obligation for energy suppliers to continue the rollout of smart meters (SMs), in addition to the New and Replacement continue the rollout of smart meters, in addition to the New and Replacement Obligation (NRO)? Please give reasons for your answer.

We agree that new obligations on suppliers will help to ensure the success of this new phase of the SM rollout. Whilst suppliers are doing a good job of installing SMs in certain parts of the country, there is definitely need to increase the rollout rates in the rest of the country, and in our region in particular. As of October 2019 there were 42,000 SMETS2 meters fitted in the ENWL region out of a possible 2.4 million meter points, making up around 2% of the total. Significant impetus will need to be given to the rollout in the North to ensure that we can meet the ambitious target of 85% coverage by the end of 2024.

The lower deployment of SMs in the North means there is a significant opportunity to ensure the North remains at the forefront of the transition to the smart energy system of the future, as our region is a place of significant growth such as Preston, Warrington, Wigan, Greater Manchester and the airport². It is also home to many customers in vulnerable situations, who are at risk of being less able to benefit from new smart technologies, but could have the most to gain from the savings and opportunities that they bring.

We support the SM rollout as a DNO and need to appropriately resource our operations teams to replace any cutouts (the last part of the DNO's network which connects to the customer meter) that are unable to accommodate a SM. A clear schedule of what volumes of work will need to be carried out is needed to ensure our meter interventions can be carried out as efficiently and effectively as possible leading to positive customer experiences when getting smart meters fitted.

A key question is whether or not the previously non-communicative SMETS1 meters which are slowly connecting to the DCC network will count towards a supplier target of SMs, or whether they are already included in the estimate of SMs installed in Great Britain so enrolments of SMETS1's wouldn't count to targets.

Question 2: Do you agree with our conclusion that extending the existing "ARS" (All Reasonable Steps) obligation would not deliver market-wide rollout in a timely manner consistent with wider Government objectives, in particular the long-term ambition of net zero greenhouse gas emissions by 2050? Please give reasons for your answer.

We agree that the current design of the rollout is not being delivered at sufficient speed to be able to achieve the target 85% coverage by the end of 2024. Whilst the rollout has not been as extensive in the North as in the South, there is now a real opportunity for suppliers and DNOs to focus their efforts together in the North to improve the penetration of SMs. A further enhancement to the current arrangements would be for SM coverage to be targeted and measured per DNO region, rather than nationally, which would help to ensure that there is consistent SM coverage across the country. In the responses to the subsequent questions, we provide some further data on the rollout in our region, and some of the opportunities to enhance reporting that we have identified when planning the work we need to do to help deliver the SM rollout.

Question 3: The obligation proposes a monitoring framework with binding pre-set annual milestones for four years (from 2021 to 2024). Do you agree with this time period? If not, we

² <https://www.pwc.co.uk/government-public-sector/good-growth/assets/pdf/good-growth-for-gities-2018.pdf>

would welcome your views on alternative time periods. Please provide evidence to support your answer.

Yes, we agree that the rollout needs to begin a new phase in order to achieve the SM market penetration volumes that BEIS is targeting.

It is very important that both BEIS and DNOs have the right information to be able to adequately plan and monitor the rollout of SMs. To date, there have been significant shortfalls in actual installation volumes compared to the forecasts of some suppliers. Over the past three years, on average the actual installation rates were 32% lower than the forecasted rates. There needs to be significant improvement in this area if all companies are to be able to plan properly to deliver the rollout. We are keen to work with suppliers to better estimate the number of SM installations and the number of cutouts that need to be replaced.

The pre-set milestones should be measured on a quarterly basis which will fall in line with all other regulatory reporting and forecasting. If the milestones are only reviewed annually, there is a risk for underperforming suppliers to fall behind the required progress rates to such an extent it would be difficult for them to get back on track by the next milestone review.

Another key reason why good quality SM installation data is important is that some of the work for delivering the SM rollout will be carried out by DNOs. Network companies make SM operational interventions for customer meters in order to ensure the energy supply to each property is safe and reliable. Interventions come in two types: category A and category B. Category A interventions are emergency responses, which the DNO must attend within three hours. Category B interventions are often where the cutout needs to be replaced before a SM can be used. According to current data, only a small percentage (lower than 10%) of SM installations require a DNO intervention to make the meter operational.

For the northern DNOs to deliver the required number of SM operational interventions, we expect proactive recruitment and training of additional cutout fitters will be required. This usually takes several months from recruitment to being fully competent, depending on existing skills levels. Based on the intervention volumes delivered to date and the anticipated volumes required over the four year period, ENWL will require accurate forecasts from suppliers, and a steady state delivery programme. We expect to see a significant ramp up in the North as a whole (not only ENWL) so foresight of suppliers plans will be essential to plan the significant investment in our resources to deliver the higher volumes to meet the 85% penetration within the four year period. Because of this, it is vital that DNOs have accurate information available in good time to be able to recruit, train and deploy their staff as effectively as possible.

We estimate that we will need to increase our capacity by 50% to make SM interventions to deliver 85% SM coverage by the end of 2024. There are approximately 2.4 million MPANs³ in the ENWL region. At the current rate of the rollout in October 2019, we are called out to 6.6% of SM installations to undertake either category A or B interventions, which currently totals around 50 per day. Deducting the number of installations already made, we estimate that if we are required to make interventions on 6.6% of all SM installations, then we will need to make an additional 24 interventions every day anywhere from Carlisle on the Scottish Border, Workington to Lancaster and Stockport and everywhere in between in order to meet the target of 85% SM coverage by the end of 2024. This totals around 78,000 interventions.

There is a danger that all companies will continue to fail to meet the installation targets until the smart meter DCC communications issues are resolved. It is less likely that companies will focus their resources in the northern area if no benefits will be recouped from doing so.

³ Meter Point Administrator Numbers. These are the unique IDs for each individual electricity meter.

Question 4: Do you agree with our assessment that an 85% minimum coverage at the end of the framework period is achievable? Please provide evidence to support your answer.

A SM coverage rate of 85% can be achieved at the end of the framework period. However, it is important to understand how this rate is calculated, and if the calculation methodology may inadvertently incentivise behaviours that don't ensure consistent coverage of SMs across all Great Britain.

If the rate of 85% is measured on a national basis, then it is likely that this target can be achieved over the timeframe. However, primarily due to the slower than planned communications rollout in the North of Great Britain, the levels of SMs in the North are much lower than in the South. It may be possible for a supplier to focus their SM installation levels by concentrating their efforts on installing more SMs in the South leaving Northern customers less able to benefit.

ENWL strongly believes that the 85% SM coverage rate should be set and measured regionally, in order to achieve geographically consistent SM coverage, and also to provide data which would most usefully indicate where installation rates need to be targeted and increased. The most natural way to do this would be for SM targets and installation rates achieved to be reported for each of the fourteen DNO areas.

According to our own estimates, at the current rate of SM interventions, 85% SM coverage in the ENWL region will be achieved a year later than the target date, by the end of December 2025. This shows that a significant coordinated drive is needed to accelerate and sustain the rate of SM installations to achieve the target by the end of 2024 for which we can do our part to make 2024 achievable.

The target of 85% SM coverage is achievable but it is subject to accurate supplier forecasts, and milestones set so that the agreed tolerances allow for the inevitable fluctuations in installation rates that will occur over the rollout period. In addition the increased installation volumes required within ENWL's region would require extra resources to be deployed, this combined with increases in other northern DNOs may lead to a shortage of resources, or a sharp increase in costs.

For this reason, it is vitally important to the success of this new phase of the SM rollout that the issues with the DCC communications network in the North is neither materially nor by perception causing a barrier to suppliers installing SMs in the North so there is managed ramp up and ultimately a ramp down in SM installation activities. We are reassured by statements that DCC communications issues are being resolved so northern-based DNOs should start to see higher installation volumes.

Question 5: Do you agree with the application of permitted tolerance in stages, growing in a straight line to the final year of the monitoring framework? We would welcome your views on alternative methods to apply tolerance around the annual milestones. Please support your answer with relevant information.

ENWL does not fully agree with the approach as set out in the consultation. We see merit in permitted tolerances as long as they are set in a way that means that any shortfall in installations could be recovered in the subsequent periods without detrimentally impacting the workload for DNOs on meter interventions. Due to the low volumes of SMs currently fitted within the ENWL area, significantly increased volumes will be fitted over the period to the end of 2024. In order to complete the required number of enabling DNO interventions to achieve 85% SM coverage in the North West, additional resources will be needed which will necessitate recruitment and training to take place. Resourcing to meet any projected fluctuations which do not materialise would not be cost effective for any DNO.

Consideration also needs also be given to the redeployment of resources towards the end of the new rollout phase to ensure where possible skills are retained and employees are retrained so they can find alternative work within the industry in the run up to and following hitting the 85% target at the end of 2024. The installation profiles for suppliers would need to ramp up to allow training and recruitment at the start of the period, and also ramp down at the end to allow for retraining and redeployment of resources. It would be in consumers' interests to avoid the rollout ending with a "hard stop", as this might make the rollout more expensive than otherwise and could make the timely redeployment of staff more challenging.

Question 6: Do you agree that pre-defined annual milestones will facilitate the progress towards rollout completion? Please give reasons for your answer.

Yes, however as we have described in our response to question 5, milestones need to be monitored against each supplier's forecast and any milestones aggregated within each DNO area to an agreed delivery profile that the DNO can commit to the interventions required for SMs to be fitted smoothly for customers. Each supplier forecast should be monitored individually and fluctuations that take an individual supplier's volume outside of an agreed tolerance level should be excluded from any DNO service level agreement (SLA)⁴ imposed. This should be linked to the BEIS bi-lateral meetings and other engagement to establish if delivery against the framework end date is on track and what actions could be taken to mitigate shortfalls. We support the inclusion of a mid-period review of the new phase as this would allow any review of the milestones in good time ahead of the end date. A key consideration for the mid period review would be the managed wind down into business as usual mode of the rollout for all parties.

We have considered a scenario where supplier rollout of SM's is faster than the forecast given to a relevant DNO. In these circumstances we would seek to meet consumers needs effectively with the resources that we have available but we would look to have SLA performance obligations relaxed.

Question 7: Do you agree with the proposal that "customer churn" –arising from consumers switching energy suppliers - should be accounted in energy suppliers' pre-set annual milestones? Please give reasons for your answer.

It would be reasonable to expect that if a supplier is responsible for fitting a meter for a customer, then that supplier should get the credit for installing that meter, even if the customer then shortly switches to a different supplier. One of the key justifications for the SM rollout is that SMs empower customers to change their behaviour, and so the supplier should not be penalised for enabling the customer to better understand their own energy usage, and to change suppliers to better suit their needs as a result.

ENWL has heard anecdotal evidence that some suppliers are encouraging new customers who already have SMs installed to have a new SM installed. In these cases, particularly if a supplier is replacing a SMETS2 meter with another SMETS2 meter, it does not seem appropriate that the supplier should be able to count these installations in their quota. In allowing suppliers to do so, it disincentivises suppliers to target customers with non-SMs, which is the true objective of the rollout. It would also artificially inflate the number of SMs installed nationally. This may significantly impact on the realisation of the benefits for DNOs if single premise customers change suppliers regularly and the SMs are replaced each time. For DNOs to provide reliable and accurate data for SM installations, there is a danger that multiple SM installations would show higher penetration than exists, so rules need to be clearly specified to account for when a SM is being replaced rather than being installed to replace a traditional meter.

⁴ Category A interventions must be made within three hours of being reported.

Question 8: Do you agree with the proposal that any post 2020 obligation should be applied to all energy suppliers regardless of size and date of entry into the market? Please give reasons for your answer.

We agree that all suppliers should be required to fit SMs so that there is consistency in the supplier industry. Equal access for all customer segments to SMs must be ensured, as small suppliers could focus on a few specific market segments, leading to those customers then being excluded from benefitting from a SM if a significant market share of suppliers in that segment do not offer to install SMs. With the increasing number of small suppliers and their rising market share, the quality of SM installations data must not diminish; otherwise this will adversely impact the efficiency and effectiveness of the work by DNOs.

Question 9: Do you agree with the proposal of a mid-point review to revisit tolerance levels within the monitoring framework period in line with market conditions?

a. If the answer is yes, when do you think will be the best time for this review?

If the answer is no, please explain why not.

Yes, ideally review conversations should be quarterly with suppliers via the bilateral meetings and yearly deeper dives with BEIS to establish if the programme is on track for completion by the end of the framework period in 2024. It would aid DNOs further for their intervention work planning if any significant discoveries made at each quarterly review would then lead to the publication of a revised delivery plan for the rollout. We support these reviews continuing and are happy to contribute towards them if needed.

Question 10: Do you agree that the legal drafting in Annex 1 implements the policy intention proposed in this consultation? Please give reasons for your answer.

No response.

Question 11: Do you agree with the legal drafting in Annex 2 in relation to the post 2020 reporting requirements on rollout information to be provided to the Secretary of State? Please give reasons for your answer.

No response.

Question 12: Do you agree with the legal drafting in Annex 6 setting out proposed consequential changes to existing licence conditions as a result of the previous amendments? Please give reasons for your answer.

No response.

DCC Charging

Question 13: Do you agree with the proposed changes to DCC charging arrangements in the period after end-2020? Please give reasons for your answer.

In addition to Energy Suppliers, Electricity Distributors and Gas Transporters are also charged on a market-share basis by the DCC as a User as set out under the Charging Methodology of the Smart Energy Code (SEC) Section K. Consequently, and in addition to Energy Suppliers, we will be impacted by the proposed changes to the DCC Charging Methodology set out in Annex 3 for the new charging period – referred to as the COMR (Completion Of Mass Rollout) Period during which “mass rollout” of Smart Metering Systems is to be completed by 31 March 2025.

Currently, the Electricity Distribution Licence contains a mechanism agreed with Ofgem for treatment of DCC charges (referred to as Smart Meter Communication Licensee costs), which runs only up to the end of March 2021, under the licence special conditions. With the

new rollout phase and new requirements such as enrolling SMETS1 meters we look forward to Ofgem engaging with DNOs on appropriately extending the cost treatment mechanism.

Out of just over 2 million SMETS2 meters installed in the North, only 2% of these are in ENWL's region, which also represents just under 2% of ENWL's meter points. A much higher number of installations will need to take place in order for ENWL to benefit from the data provided by SMs.

We agree with the principle of the BEIS proposal to amend the DCC charging arrangements to provide for a date where the market-wide rollout has been achieved to align with the post 2020 rollout obligation proposed in this consultation. This is subject to Electricity Distributors continuing to be able to treat their DCC costs under their price control cost recovery arrangements for the same COMR period. As part of the development of Post 2020 Smart Meter policy, we support BEIS engaging with Ofgem's Electricity Distribution team regarding the consequential changes for DNOs.

Question 14: Do you agree that the legal drafting in Annex 3 implements the policy intention? Please give reasons for your answer.

No response.

Coordinated Consumer Engagement Activity

Question 15: What types of co-ordinated consumer engagement activities are necessary in the period after 2020 to support delivery of a market-wide rollout? Please provide your rationale to support your suggestions.

ENWL already works closely with suppliers on issues such as warrants, and we cooperate on initiatives such as direct calls from suppliers to ENWL when they are already onsite to arrange DNO SM interventions. This helps to expedite the process to ensure a better customer journey. There is potential for suppliers and DNOs to work together more to make the customer experience better and more consistent which we are taking forward through our regular liaison with suppliers.

ENWL stakeholders have expressed interest in the SM rollout and this will be one of the topics covered at our next ENWL Customer Advisory Panel scheduled for February 2020.

Embedding Consumer Behaviour Change

Question 16: What policy amendments or new initiatives you consider will be required to ensure that the consumer benefits of smart metering are sustained? Please provide evidence to support your views.

One substantial change that could help customers to start benefiting from SMs is the completion of the Charging and Access review.⁵ In addition, consideration should be given to the extension of half-hourly (HH) settlement for more customers, including domestic and small commercial which would be key to leveraging consumer benefits. This will provide more appropriate price signals to incentivise changes to customer behaviour, and greater transparency of the electricity market.

We welcome the resolution of the SM communication issues during the remainder of this year which is key to unlocking benefits for consumers. SM data will also be of use to DSOs who will have an additional source of information of the demand on their networks in close to real time, and so will be able to make better informed and location-specific decisions on

⁵ <https://www.ofgem.gov.uk/electricity/transmission-networks/charging/targeted-charging-review-significant-code-review>

network management actions. This should ultimately reduce the costs of providing network capacity as we decarbonise, leading to improved value for customer.

We expect it is more likely that customers will benefit from SMs once technology has developed enough that it can automatically adjust customer energy usage in the background, rather than relying on customers to actively make changes to their lifestyles. The completion of this phase of the rollout is therefore an enabler of a big change in how energy is consumed.

There is some encouraging evidence that highly engaged customers are benefiting in cost savings from time of use tariffs by closely managing their usage⁶, though there are some barriers to customers receiving the benefits of SMs. Citizens Advice highlights that according to the ONS, 5.3 million UK adults are non-internet users, and 51% of respondents in a Citizens Advice survey were not comfortable sharing near real-time energy data⁷. Despite being over ten years since the market was liberalised, in 2019 49% of customers have never switched supplier, or have only switched once; and 53% of customers were on a default tariff.⁸ This shows that customers are still not particularly widely engaged with the energy market. The best way to engage customers in the benefits of SMs would be to demonstrate to them how they can make tangible savings, contribute to decarbonising the energy system and to demonstrate to them that sharing their data is worthwhile and secure.

It will be particularly challenging to show how non-internet users can benefit from SMs, as much smart technology relies on an internet connection. It is important that these customers, who in many cases will be customers in vulnerable situations, are not left behind or disadvantaged by the transition to the smart energy system of the future. This is an area that could be looked at in more depth. We have demonstrated through our Smart Street project⁹ that it is possible for DNOs to invest in measures that will reduce customer bills; there is potential for companies to innovate and devise other ways in which smart data can be used to reduce the bills of non-internet users.

Other Incentives

Question 17: What other policy measures should the Government consider in order to complement the proposed market-wide rollout obligation? Please give a rationale and evidence to support your suggestions.

It is vital to the success of the rollout that BEIS requests Ofgem to reflect the new rollout phase timescales into DNOs regulatory mechanisms in our licences. We have seen some proposed Ofgem licence changes for suppliers and note changes are also needed to distribution licences to enable cost recovery.

These costs include the costs of replacing cutouts, the IT costs required to process the future volumes of data we will receive from the DCC and our customers share of DCC licence fees. This is particularly pertinent as currently the benefits from SM data for a DNO in the North are very limited. Due to the low volumes of SMs in the North currently, there will be a significant increase in the costs associated with SMs in the future. IT costs will be incurred in investing in the systems required to process the data received from the DCC. There are also large numbers of cutouts to be replaced over the course of the new rollout phase which need to be funded to ensure that customers receive the benefits of SMs.

⁶ <https://octopus.energy/blog/agile-report/>

⁷ https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/Future%20for%20all_FINAL.pdf

⁸ <https://www.ofgem.gov.uk/publications-and-updates/state-energy-market-2019>

⁹ <https://www.enwl.co.uk/zero-carbon/our-key-innovation-projects/smart-street/what-is-smart-street/>