



Department for
Business, Energy
& Industrial Strategy

The Rt Hon Claire Perry MP
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28 January 2018

Dear Rachel,

BEIS Committee Hearing: NAO Report on the Smart Meter Programme

I am writing in response to your letter dated the 21 January and to provide further information on three points raised during the 9 January Committee hearing.

SMETS2 meters and the North Region:

I am aware that the DCC have written to the Committee to outline the steps that are being taken to increase SMETS2 installations in the North Region. The action plan that the DCC have implemented with suppliers and meter manufacturers should see the rate of SMETS2 installations in the North region continue to accelerate. Government will continue to monitor deployment in the North region in the coming months

Marketing costs in the 2019 Cost-Benefit Analysis

Our Cost-Benefit Analysis currently includes £192 million for the costs of a national engagement campaign on smart metering, and an allowance for this will continue to feature in our updated CBA. We are not planning on including any marketing costs incurred by individual energy suppliers as these should be funded by existing budgets for marketing activities. Some have sought to re-purpose these to promote smart metering as part of customer retention and acquisition strategies, which is business as usual activity. Others have used existing touchpoints and processes in consumer journeys. It would therefore not be appropriate to allocate the costs of these activities to the smart meter rollout.

Installation costs

We are monitoring installation costs closely. It is important to note that the costs highlighted in the NAO report relate to 2017 data and that this showed substantial variation, as this was a year when many suppliers or third-party providers were significantly expanding and training new installer workforces. Some energy suppliers' reported costs remain in line with or below our forecasts in the Cost Benefit Analysis.

Energy suppliers should have the right incentives to minimise the costs of installation, because they do not want to incur more expenditure than their competitors. However, both

industry and the Government will continue to scrutinise installation costs to ensure optimisation and efficiency, as well as sharing good practice.

Monitoring of energy savings:

The Department's approach to benefits monitoring is based on a comprehensive theory of change for the realisation of smart metering benefits, developed through a programme of primary research carried out by the Department and a synthesis of international and British evidence. This allows the Department to monitor intermediate steps (or leading indicators) for energy savings, for example engagement with In Home Displays. We track these indicators through industry data and BEIS led consumer research, including the Department's Early Learning Project (2015) and our recently published Smart Meter Customer Experience Study (2018).

We have however also evaluated energy saving impacts periodically, through large scale trials (the Energy Demand Research Project, 2011), quantitative energy consumption analysis based on installations in the programme's foundation stage (published as part of the Early Learning Project) and industry data. The findings of this research support the conservative assumptions in the Programme's Cost-Benefit-Analysis (2% savings on gas, and 2.8% savings on electricity). Evidence from British Gas shows their dual fuel customers with smart meters are making nearly 4% sustained annual energy savings. We recognise that there is scope to enhance our evidence base further and are working with energy suppliers to review what evidence they hold on energy savings for households with smart meters, and will consider what can be made publically available

Distribution of benefits to vulnerable consumers

The forthcoming update to the Programme's Cost-Benefit-Analysis will include a dedicated section on the impact of smart metering on consumers in vulnerable circumstances. This will draw on findings from research conducted by the Programme, together with evidence from the extensive monitoring arrangements currently in place. The Programme regularly reviews this data and publishes the outputs from our research activity, enabling consideration of the experiences of different consumer groups.

In addition to the update to the Cost-Benefit-Analysis the Programme will continue to monitor the rollout to ensure that consumers in vulnerable circumstances benefit from smart metering, and will take action if necessary, to remove any barriers.

Smart Export Guarantee

Building on our vision for a smarter, cleaner and more flexible energy system, the consultation on a Smart Export Guarantee (SEG) is open until 5th March 2019. This proposes that exported electricity should be metered on a half-hour basis and registered for settlement. For domestic installations we expect smart meters to enable this, but there is no requirement at this stage to settle the exported electricity on a half-hourly basis. We will consider evidence through the consultation process and are aiming to minimise any hiatus for the sector following the closure of the Feed-In Tariff Scheme at the end of March 2019.

Park home sites

Park home site owners are usually eligible to have smart meters installed at no extra cost for the overall site. However, the way in which park home residents within a site are supplied with energy and billed for its use varies. It usually reflects the tenancy arrangements in place at individual park sites. For example, where the park home site sells energy on to residents

through a private network, site owners have responsibility for any secondary metering equipment. In these situations, site owners may decide to install individual meters for their tenants. This may be done at an additional cost to the park home residents. The Rt Hon. Antoinette Sandbach MP kindly promised to send details of the specific park home circumstances of her constituent. Given the variability across different park home sites, my officials will be able to provide more information once these details have been sent.

Whistleblowing case

We understand that the claimant for the Ofgem case has sought permission to appeal against the recent judgment of the Employment Appeal Tribunal. As you will appreciate, the Government is therefore unable to comment on an ongoing case.

Smart Energy GB and the Advertising Standards Agency.

I am aware that Smart Energy GB has already written to you addressing the specific points raised during the Committee hearing, however, I am pleased to see that Smart Energy GB's campaign seems to be resonating with people across the country on a topic which has historically been of low interest to consumers. For example, their research shows that 97% of people are now aware of smart meters.

I hope you find this information helpful and I am grateful for the Committee's scrutiny of this important national energy infrastructure upgrade.

Yours ever,

A handwritten signature in black ink, appearing to be 'CP' followed by a flourish.

THE RT HON CLAIRE PERRY MP
Minister of State