

# GREEN RECOVERY REPORT:

## SMART METERING

## OFFSHOOT





# SMART METERS - THE KEY TO UNLOCKING OUR NET ZERO FUTURE?

At first, smart meters were sold to us as a way of seeing how much energy we are using, by means of an in-home display that shows, in almost real time, our energy use and hourly cost, with the idea being we would maybe think twice before boiling a full kettle. Now, the marketing emphasis has changed to the “quiet revolution”. Smart meters as enablers of a greener energy system that is more reliant on intermittent renewable energy. The data they are gathering on our energy use means that the system operator can see when and where the areas of highest energy demand are, and direct green energy to where it’s needed most.

In future, smart meters will unlock time of use tariffs, incentivising consumers to use energy when it is cheaper, like charging their electric vehicles overnight, or connecting to smart appliances that can turn themselves on at times of low demand and high renewable electricity supply, like windy nights or sunny days. The Committee on Climate Change estimate smart meters would bring £16 billion benefit per year by 2050.



## THE SCALE OF THE PROBLEM

Rolling out 53 million smart meters to all eligible customers by the end of 2020 was always an ambitious target. As of 30 September 2020, 22,2 million had been installed, meaning 41% of all meters at that time were now smart, although only 33% of all meters operate in smart mode. Reaching the target was made no easier by Covid, which suspended installations entirely for two months (March to May 2020) although they have now bounced back. However, the writing was already on the wall before Covid hit, with Ofgem reporting that half of the larger suppliers had failed to meet their 2019 milestones or come within the 10% tolerance level.



The result of this was a move of the goalposts for suppliers, with an extension of the initial roll-out obligation until 30 June 2021, followed by a new regulatory framework with binding installation targets from July 2021 to 2025. While in one respect this provides welcome extra time, it also means that suppliers will have to provide updated roll-out plans and will be subject to ongoing installation and reporting obligations for some time to come.

The revised roll-out obligation takes a nuanced approach to the roll-out and reporting from July 2021. Suppliers will be given targets, working towards a 100% rollout over 4 years, but there will be tolerances to allow for inevitable delays (currently envisaged to be 4% in year 1 and 5.5% in year 2, leading to a minimum smart meter coverage of 56% by the end of year 1 and 65% by the end of year 2). Large suppliers will be under particular scrutiny, having to regularly report both their targets and performance, as well as publishing the results on their websites. More companies will be classed as large energy suppliers, as the threshold is reducing from 250,000 to 150,000 customers.



## CHANGING HUMAN BEHAVIOUR

One of the key issues for suppliers in meeting their roll-out obligations is customer engagement, given that customers cannot be forced to accept a smart meter and that position appears unlikely to change for all but the most extreme of circumstances (e.g. energy theft). The reasons for this lack of engagement vary from customers delaying acceptance until they have been offered a SMETS2 meter, to cancelled installations and a reluctance to engage with the supplier at all.



There is a balance to be struck here, as Ofgem have warned against repetitive approaches to customers. However, many suppliers are now finding new ways to incentivise customers to switch to a smart meter (e.g. a beneficial smart meter tariff). There has also been a step up in the industry wide customer engagement campaign, with the objectives of co-ordinating body 'Smart Energy GB' being expanded. The real change may come with time, with the 'New and Replacement Obligation' (requiring that new and replacement meters should be SMETS2 meters wherever possible) meaning that customers will become increasingly familiar with the benefits of smart meters.

As acknowledged in the recent BEIS consultation, Covid has been a mixed blessing in relation to smart meters - on the one hand, customers have been reluctant to have installers in their homes, on the other hand widespread working from home has made weekday installations easier and pre-payment customers have benefited from being able to track and top up their credit from home. The fact that installations have been continuing (despite tighter procedures) for the majority of the pandemic shows how important the smart metering roll-out is to the Government.

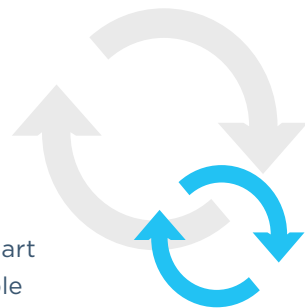


## NEXT GENERATION

SMETS2 is the future. Being enrolled onto the Smart DCC network as standard, SMETS2 meters are able to be switched between suppliers using the network, benefitting customers (hence the emphasis on the New and Replacement Obligation).

However, the latest Ofgem review makes it clear that SMETS2 meters are not being offered to all customers, partly for technical reasons (e.g. where a different meter variant or communications hub solution is required), partly due to Covid (Smart DCC reporting a slight slow-down compared to the pre-pandemic installation rate) and partly because supply chain issues mean that the relevant meters are not available. The latter issue raises the question of manufacturer and installer capacity - for a long time, a big concern within the industry - and the speed of agreements being reached between suppliers, manufacturers, meter asset providers (MAPs) and installers (MOPs/MAMs). These will have to be expedited to hit the updated installation targets and ensure SMETS2 meters are available to all.

Nevertheless, despite the impact of COVID, Smart DCC are clearly on a roll, reporting that the 10 millionth smart meter had been connected to its network on 1 February 2021 and that more than 5.5 million meters (both SMETS2 and migrated SMETS1) had been connected since the start of the pandemic. This expansion brings the key goals of energy saving and ease of consumer switching ever closer.



## CREATING THE INVESTIBLE PROPOSITION

Despite the teething problems, the continued push towards roll-out and embracing of new technology, together with regular, low risk returns continues to make smart meters an area of interest for investors, evidenced by healthy activity in the market. To this end, it will be just as important going forwards that appropriate agreements are in place for when SMETS2 meters (owned by a particular MAP) churn to a new supplier. While this is a consumer protection point for Ofgem, clear, pre-agreed terms will also assist the commercial parties in managing an ever increasing number of meters and churn events.



# GLOSSARY

## SMETS2

Smart Metering Technical Specification version 2: SMETS2 compliant meters can transmit and receive data from different energy suppliers, i.e. they will still operate if the consumer switches supplier

## DCC

Data Communications Company (Smart DCC), which receives data from smart meters and passes it on to suppliers (and vice versa)

## ADVANCED METERS

not as smart as smart meters, but capable of storing half-hourly electricity and hourly gas data: for non-domestic customers

## MAPs

meter asset providers, who buy smart meters from manufacturers and loan them to energy suppliers who then install them in their customers' premises (a way of suppliers avoiding the cost of buying large volumes of smart meters outright)

## CONTACT



### PAUL DIGHT

Partner, Energy and Utilities  
0113 209 7704  
07738 697302  
paul.dight  
@addleshawgoddard.com



### SOPHIE HILEY

Managing Associate, Infrastructure  
Projects & Energy  
0113 209 2171  
sophie.hiley  
@addleshawgoddard.com



**PROBLEMS. POSSIBILITIES.  
COMPLEXITY. CLARITY.  
OBSTACLES. OPPORTUNITIES.  
THE DIFFERENCE IS IMAGINATION.**

**[addleshawgoddard.com](http://addleshawgoddard.com)**

© Addleshaw Goddard LLP. This document is for general information only and is correct as at the publication date. It is not legal advice, and Addleshaw Goddard assumes no duty of care or liability to any party in respect of its content. Addleshaw Goddard is an international legal practice carried on by Addleshaw Goddard LLP and its affiliated undertakings – please refer to the Legal Notices section of our website for country-specific regulatory information.

For further information, including about how we process your personal data, please consult our website [www.addleshawgoddard.com](http://www.addleshawgoddard.com) or [www.aglaw.com](http://www.aglaw.com).