

Welcome to the fifth edition of **Smart Comment**, a newsletter produced by the Energy Retail Association (ERA) providing update information on the roll-out of smart meters to every home in Britain.

By 2020 Great Britain will be the first country in the world to have an overhaul of this size for both electricity and gas meters. Following Government's announcement in December 2009, this edition outlines the next steps that are needed in order to achieve the 2020 target, and also gives an overview of the benefits of smart meters.



Industry welcomes the Government's decision to begin a smart meter roll-out

The ERA's members were delighted that, on the 2nd December 2009, the Department of Energy and Climate Change (DECC) announced that gas and electricity smart meters would be rolled out by energy suppliers to every home by the end of 2020. The energy industry is already anticipating the next stages of planning of the biggest change project in the energy market since the conversion to North Sea gas in the 1970s.

The announcement kick-started the preparations for smart meters in earnest with a central smart metering implementation programme mobilised by the DECC & Ofgem (the energy regulator). Energy suppliers, and the industry as a whole, have their own large-scale development programmes to deliver smart metering to customers and much of this development is dependent on the work and policy decisions taken by the DECC/Ofgem programme.

As the major funders of the programme, as well as being responsible for delivery, energy suppliers welcome the opportunity to continue to engage with DECC and Ofgem, and also being an integral part of the decision-making process. This will ensure that all the benefits for customers and society as a whole will be passed on by suppliers.

We believe that the Government should continue to show ambition in the delivery of smart meters with customer benefits at the centre of developments. It is critical that there is a vision for what the programme is to deliver, and that the vision and strategy for its delivery be maintained throughout the whole life of the programme. The vision and design must be visible to all who play a part in its delivery.

Smart metering is a once in a lifetime opportunity to revolutionise the way that customers think about energy use in the home, delivering real benefits to energy consumers.

The benefits of smart metering must be achieved

The delivery of benefits to customers is central to the delivery of the £6bn positive cost benefit case for Great Britain, and the relationship between the energy supplier and the customer is essential.

Energy suppliers will be providing the bulk of funding and will be responsible for the delivery of smart metering, but it is important to recognise that the benefits identified for industry will be passed through to customers. The ultimate recipients of all benefits of smart metering will be customers and society:

- Consumers will benefit through savings on their energy bills, as well through a new customer-

- supplier relationship that smart metering will facilitate. This will include the end of estimated bills.
- Society will benefit, not only through the development of an energy industry that is truly efficient, but smart metering will also help the transition to a low carbon economy.

Government has rightly identified industry simplification as an essential way of achieving benefits for customers. By providing the opportunity for common and potentially faster industry processes, activities such as switching supplier will become quicker and easier for customers. Without simplification, this unique opportunity to deliver benefits to the customer will be lost. The programme should continue to look for opportunities to make the industry serve the customer better.

Britain has the most competitive energy market in the world, and as such, any supplier who does not pass on the benefits of smart metering to their customers will become uncompetitive in comparison to its competitors. It is important that a smart metering market design adequately defines interoperability to ensure that the process for customers to switch energy supplier works as smoothly as possible.

Supplier savings will be passed on to the customer, and this, coupled with the opportunity to save energy underpins the cost benefit case.

Momentum must not be lost

Suppliers welcome the Government's preferred choice of the centralised communications market model, but note that there is much development work still to do to define it, and all other details required for roll-out (e.g. central communications scope and design, and meter specification).

The ERA's members are also very pleased that the smart meter implementation programme has been established with leadership from DECC & Ofgem, however there are many issues still outstanding and a huge body of work still to be done. It will be essential to build on the development work already done in industry and to gain the necessary momentum and pace in this programme.

We are pleased to see DECC's ambitions to begin setting up the formal industry governance programme with appropriate stakeholders, in parallel with considering the consultation responses. We also welcome the Department's recognition that the regulator, Ofgem, will have a significant role to play in this programme.

It is essential that there are clear plans from the DECC/Ofgem programme, with clear communication of dependencies and the critical path for delivery of smart metering as a whole. Industry participants have extensive development programmes for smart metering that require certainty to progress. The success of smart metering is dependent on all energy market parties being ready for roll-out. The energy industry quickly needs clarity and certainty in market design, meter specification and a number of other policy areas from the DECC/Ofgem programme, to be able to deliver smart metering to customers in appropriate timescales.

The next steps

The DECC/Ofgem programme is now required to design and implement new cross-industry arrangements.

Phase One will be a joint DECC/Ofgem initiative with DECC chairing a Strategic Programme Board to provide the necessary strategic oversight and direction during Phase One. Phase One will deliver a "Prospectus" which will define the scope and key principles of the solution for smart metering and translate these into a programme plan for the remaining phases of smart metering delivery.

This implementation programme will touch all parts of the energy industry, and careful design and planning are needed to maximise the benefits to consumers and industry, while driving down on the costs of installing and operating the new smart meters.

There are a number of aspects of the smart metering roll-out such as interoperability that require significantly more development. The importance of the interoperability of smart meters to the competitive market should neither be underestimated nor assumed. Any supplier must be able to talk to, or communicate with, any meter which they are authorised to contact. This is in order ensure that retail competition is not compromised in any way, and to minimise instances of smart meters being exchanged for different smart meters which would add unnecessary costs. Ensuring that meters are interoperable will go hand in hand with industry simplification.

Energy suppliers remain committed to sharing their work and participating fully in defining how the benefits to customers can be maximised in the industry design.

What are smart meters?

Smart meters are the next generation of electricity and gas meters which will bring about the end of estimated bills and meter readings, and provide customers and energy suppliers with accurate information on the amount of electricity and gas being used. They will also provide the platform for the development of a much greater choice in energy tariffs and services for homes across the country.



What are the benefits of smart meters?

- Smart meters will offer accurate real-time information on the amount of gas and electricity being used
 - Smart meters can communicate between the supplier and the customer which will mean that bills will be accurate and will bring an end to estimated billing
 - Smart meters will create industry efficiencies that will be passed through to customers
 - Customers can see the amount of energy they are using in an easily understandable format and therefore can change the way they use energy in the home
 - Smart meters will support microgeneration which means generating low carbon energy at home
 - Smart meters will allow for a huge variety and sophistication of electricity and gas tariffs
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The Energy Retail Association (ERA), formed in 2003, represents the main electricity and gas suppliers in the domestic market in Great Britain. All the main energy suppliers operating in the residential market in Great Britain are members of the association – British Gas, EDF Energy, RWE npower, E.ON, ScottishPower, and Scottish and Southern Energy.