PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

SMART METERS BILL

First Sitting

Tuesday 21 November 2017

(Morning)

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not later than

Saturday 25 November 2017

The Committee consisted of the following Members:

Chairs: †Mike Gapes, Mrs Cheryl Gillan

† Carden, Dan *(Liverpool, Walton)* (Lab)
† Debbonaire, Thangam *(Bristol West)* (Lab)
† Freer, Mike *(Finchley and Golders Green)* (Con)
† Gibson, Patricia *(North Ayrshire and Arran)* (SNP)
† Grant, Bill *(Ayr, Carrick and Cumnock)* (Con)
† Harrington, Richard *(Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy)*
† Kerr, Stephen *(Stirling)* (Con)
† Lewis, Clive *(Norwich South)* (Lab)
† McCabe, Steve *(Birmingham, Selly Oak)* (Lab)
† Morris, Grahame *(Easington)* (Lab)
† Pawsey, Mark *(Rugby)* (Con)
Quince, Will *(Colchester)* (Con)
† Ross, Douglas *(Moray)* (Con)
† Smith, Laura *(Crewe and Nantwich)* (Lab)
† Tolhurst, Kelly *(Rochester and Strood)* (Con)
Warman, Matt *(Boston and Skegness)* (Con)
† Watling, Giles *(Clacton)* (Con)
† Western, Matt *(Warwick and Leamington)* (Lab)
† Whitehead, Dr Alan *(Southampton, Test)* (Lab)

Jyoti Chandola, Clementine Brown, *Committee Clerks*

† attended the Committee

Witnesses

Audrey Gallacher, Director of Retail Energy, Energy UK

Bill Bullen, Managing Director, Utilita

Rob Salter-Church, Partner, Consumer and Competition, Ofgem

Angus Flett, Chief Executive Officer, Smart DCC Ltd

Public Bill Committee

Tuesday 21 November 2017

(Morning)

[Mike Gapes *in the Chair*]

Smart Meters Bill

9.25 am

The Chair: Before we begin, I have a few announcements. Will hon. Members make sure they have switched all their electronic devices to silent? I do not need to remind the Committee, as everyone is complying, that tea and coffee are not allowed during sittings. If anyone wants to take off their jacket because it is too warm, please do so. If a Member has a declaration of interest to make, they need to do that in a public sitting, not a private one.

Today we will consider the programme motion, a motion for the reporting of written evidence for publication and a motion to allow us to deliberate in private about our questions before we take oral evidence. This morning's sitting is due to conclude by 10.40. In view of the time available, I hope that we can take the procedural matters formally, without debate, if that is agreeable.

Ordered,

That—

(1) the Committee shall (in addition to its first meeting at 9.25 am on Tuesday 21 November) meet—

(a) at 2.00 pm on Tuesday 21 November;

(b) at 11.30 am and 2.00 pm on Thursday 23 November;

(c) at 9.25 am and 2.00 pm on Tuesday 28 November;

(d) at 11.30 am and 2.00 pm on Thursday 30 November;

(2) the Committee shall hear oral evidence in accordance with the following table:

TABLE

Date	*Time*	*Witness*
Tuesday 21 November	Until no later than 10.10 am	Energy UK; Utilita
Tuesday 21 November	Until no later than 10.40 am	Ofgem; Data Communications Company
Tuesday 21 November	Until no later than 2.45 pm	Secure Meters; Trilliant
Tuesday 21 November	Until no later than 3.15 pm	Smart Energy GB; Citizens Advice Bureau
Tuesday 21 November	Until no later than 3.45 pm	Dr Richard Fitton, University of Salford; Dr Sarah Darby, Environmental Change Institute, University of Oxford

(3) proceedings on consideration of the Bill in Committee shall be taken in the following order: Clauses 1 to 11; new Clauses; new Schedules; remaining proceedings on the Bill;

(4) the proceedings shall (so far as not previously concluded) be brought to a conclusion at 5.00 pm on Thursday 30 November.—*(Richard Harrington.)*

The Chair: The deadline for amendments to be considered at the Committee's first sitting for line-by-line consideration of the Bill was the rise of the House yesterday. The next deadline will be the rise of the House on Thursday, for the Committee's sitting a week today.

Steve McCabe (Birmingham, Selly Oak) (Lab): On a point of order, Mr Gapes. I understand what you have just said, but what happens if something comes up in the evidence-taking sitting that would lend itself to an amendment, given that the sitting is happening after the deadline?

The Chair: That, unfortunately, is not a matter for the Chair. Tabling deadlines are set out in Standing Orders. If the hon. Gentleman would like to make a change to the tabling deadlines, I recommend that he writes to the Procedure Committee. It may be helpful if I make it clear that if oral evidence introduces a completely novel idea on the issues in the Bill—something that we did not expect to hear—and Members could not have had the foresight to enable them to table relevant amendments, I would take that into consideration in selection and grouping.

Steve McCabe: Thank you, Mr Gapes.

Resolved,

That, subject to the discretion of the Chair, any written evidence received by the Committee shall be reported to the House for publication.—*(Richard Harrington.)*

The Chair: Copies of written evidence that the Committee receives will be made available in the Committee Room.

Resolved,

That, at this and any subsequent meeting at which oral evidence is to be heard, the Committee shall sit in private until the witnesses are admitted.—*(Richard Harrington.)*

9.29 am

The Committee deliberated in private.

Examination of Witnesses

Bill Bullen and Audrey Gallacher gave evidence.

9.33 am

Q1 The Chair: We now resume the public sitting and hear evidence from Energy UK and Utilita. I remind all Members that questions should be limited to matters within the scope of the Bill and that we must stick to the timings in the programme motion agreed by the Committee. For this sitting we have until 10.10 am, and then we will have our second panel of witnesses.

Welcome. Please introduce yourselves for the record.

Audrey Gallacher: I am Audrey Gallacher, director of energy supply at Energy UK.

Bill Bullen: I am Bill Bullen, CEO of Utilita.

The Chair: Thank you. Let us begin our questions.

Q2 Dr Alan Whitehead (Southampton, Test) (Lab): One of the key clauses of the Bill concerns the extension of the time within which licensing of smart meters is tenable to 2023, although it is proposed that the roll-out should be completed by the end of 2020. Do you think there is any significance in that difference of years in the arrangements for licensing?

Audrey Gallacher: It is important that the Business, Energy and Industrial Strategy Committee and the Government maintain sufficient routine oversight over the programme. The extension is to allow that programme to be delivered so that consumers get the benefit. We know that the scheme is due to finish in 2020. There is clearly a question about whether that will happen fully, so it is important that that oversight is retained. We would be concerned about how any future powers are used and that due process is followed, and about all the other attendant requirements around any regulated area.

Bill Bullen: We do not think that the 2020 deadline is realistic, and I reiterate the need for continued administrative powers post 2020. The deadline will not be met, so it is essential that those powers are continued.

Q3 Dr Whitehead: Why do you think that the 2020 deadline is not realistic?

Bill Bullen: I just do not think that the programme is anywhere near the level of completion that it needs to be. The DCC was originally intended to be up and running in 2014, at which point 2020 was perhaps a realistic timeframe. We are now nearly at the end of 2017, and the DCC is clearly not up and running at anything like full capacity. It will just not be possible to deliver the remaining 40 million–plus meters in three years. It is logistically impossible.

Q4 The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Richard Harrington): Good morning to both of you. Would you care to comment on how you feel that smart meters are transforming the experience for prepayment customers?

Bill Bullen: Business is completely focused on the prepay market. We have nearly 600,000 prepay customers now, and more than 85% of those already have smart meters installed. The prepay market in total is something like 20% of the market—5 million households in the UK use prepay, and about 20% of those already have smart meters installed. There is a very simple reason for that: it completely transforms that product and service for those customers. It has huge value benefits for prepay households, which is why they have adopted the technology more quickly. Until the price cap came in, there were also significant price reductions because prepay smart meters allow people to cut their cost to serve ratio, and therefore they deliver a better price as well as a better product. It is a bit of a no-brainer, to be honest.

Audrey Gallacher: I echo that. We know from a lot of early research done on the Government's smart meter programme that the customer service benefits go beyond improvements and engagement in reducing consumption. The sheer customer service benefits have been massive. Right now, people have to go outside the house to top up their meter, but with a smart meter they can do that in their home. As Bill says, that has proved massively popular.

Q5 Grahame Morris (Easington) (Lab): Good morning. Why has there been such slippage in the programme from the original scheduled roll-out date of 2020? I read in the brief that there is 74% satisfaction among customers when it comes to the existing meters. Is it public perception? Is it lack of advertising? Why has take-up not been as good as originally anticipated?

Audrey Gallacher: We currently have the foundation stage for the smart meter roll-out with first generation meters. That was always the intention, as it is important that a programme of this nature and size is properly trialled and tested, so that when we move on to the mass roll-out that can be done as cost effectively and efficiently as possible, and with the best possible customer experience.

It is probably fair to say that the foundation stage has continued longer than we originally envisaged because there have been some delays around the enduring infrastructure to support the second generation meters. While that was really important, and there are already 8 million of those meters already, a lot of learnings have been taken, which means that we have a delay in the real ramp up. Until we see that ramp up, it might be difficult to understand the consumer appetite and attitude to smart meters, because we have not yet really started in earnest.

Bill Bullen: Obviously I have some difference of opinion about that. Certainly, in the market where we operate there has been great engagement with smart meters. In terms of the roll-out, one of the big issues has been the delays around the central systems for the second generation of meters. Personally, I think it was possibly not the best decision to go down that route in the first place. We would not be where we are, with 8 million meters already installed, if we did not have the first generation going out there.

My key concern, without wanting to rake over the coals of the past, is what is going to happen in the next two or three years. That will clearly be critical to the continued roll-out of smart meters, and particularly to delivering benefits to low-income prepayment households. That will be to do with the rules around the cut-over between SMETS 1 and SMETS 2 and whether continued roll-out of smart meters is going to be financially viable, because of the pre-pay price cap and changes to environmental levies that are going to have an impact on that going forward.

Q6 Stephen Kerr (Stirling) (Con): I am interested to hear about the proposition to consumers. How do you package smart meters up? What are the benefits that you talk of when you talk to consumers about smart meters? In relation to your answer to that question, why are we where we are? Why are we only 7 million in?

Bill Bullen: You have to realise that there is a completely different benefits case for prepayment customers versus normal credit customers. We are completely focused on prepayment.

As I have said already, the benefits to prepay customers are huge—the convenience alone is worth a considerable amount to somebody who may otherwise suffer an interruption to their power supply at a critical moment. With a smart meter, they can get the supply back on immediately; with a dumb meter, they cannot. Frankly, that is the biggest selling point right now, not least because, with the price cap at the level it is, there is no

differential in price anymore. But customers are still buying smart prepay, so our growth rate has slowed down since 1 April, but it has not stopped. Customers do still get the benefits.

Audrey Gallacher: For consumers more generally, there are lots of benefits around an end to estimated balances. There should be improvements in the accuracy of bills and consumers should have more control over their energy because they can see it in pounds and pence in real time, so they can reduce consumption and save money. There is more information available to facilitate easier switching, so you can change to another supplier with more confidence.

Lots of the stats that Smart Energy GB, the communications and marketing company, is providing from its research show that this is starting to bear fruit. People are much more confident that their bill is accurate—83% compared with 61% of the non-smart population. There is a lot of satisfaction with the smart process. About 80% of people like their smart meter and thought it was a good process, 75% would recommend them to friends and family, and 80% have already taken action to reduce their energy consumption. There are lots of real benefits. We have also seen a reduction in complaints and an increase in satisfaction.

But the real prize is much longer term. Smart meters are an enabler for a much smarter and more flexible future. They are going to allow us to have much more control over the networks so that we can not only reduce demand and hopefully reduce the need for ever more energy generation, but use the networks more flexibly. They are an enabler for electric vehicles and storage, and all the other things that we anticipate for the future, so it is really critical that we get this done. To Bill's point, we want to do it as effectively as possible at the least possible cost to consumers and with minimal interruption, but it is an absolutely essential component of the energy system of the future.

Q7 Stephen Kerr: Do you think smart meters are encouraging the market to act more competitively?

Audrey Gallacher: At the moment, one of the things that we are looking at for the roll-out of smart meters is that they will enable a lot more innovative products. We have seen the obvious customer service benefits for prepayment meter customers, but there are longer-term issues around what kinds of products and innovations can come out there, such as time of use, free weekend use—there are lots and lots of things. We are just starting to see the beginnings of that. It is not yet in place, but that is one of the things that smart will hopefully deliver.

Q8 Stephen Kerr: Has the lack of interoperability in the SMETS 1 meter been a drag?

Audrey Gallacher: It has probably been a bigger issue in the newspapers than for customers. That is one thing that we should bear in mind. Last month, 572,000 smart meters were put in and about 200 people contacted Citizens Advice with complaints or questions, so thankfully the customer experience and research looks a lot better than if you are just reading the news clippings.

Bill Bullen: I would make the case even more strongly than that: I do not think there really is an interoperability problem. The companies out there rolling out SMETS 1 generation meters have gone to great lengths to ensure that that is not a problem. We certainly exchange customers with smart meters with other suppliers all the time, and there is not a problem with interoperability. I think the issue has been massively overplayed, frankly.

Q9 Mark Pawsey (Rugby) (Con): May I follow that up? I have a constituent—

The Chair: I would be grateful if people did not jump in. I will allow you to follow it up, but in future please indicate rather than just jump in.

Mark Pawsey: Sorry, Mr Gapes. I wanted to follow up the point from Mr Bullen. A constituent told me that they changed supplier and had a smart meter installed. Subsequently, when they wanted to make a further change, they discovered that their smart meter had become a dumb meter. Is that a rare occurrence or a regular one?

Bill Bullen: Unfortunately, not all suppliers have engaged with smart meters. Some suppliers do not offer a smart prepayment product, for example. So if your constituent switches to a company that is not offering a smart product, clearly that will be an issue, but that is not to say that they could not switch supplier to someone else who is offering a smart prepay product.

Q10 Mark Pawsey: They went to the supplier because they thought it would be particularly competitive on price, and they were very disappointed to find that they were not able to have the benefits of their smart meter. They feel let down by the sector as a whole as a consequence.

Bill Bullen: First, since the price cap came in, there has been very little difference in price between suppliers. Obviously, consumers do have to check that the new supplier will offer a smart prepaid product.

Q11 Mark Pawsey: They reasonably assumed that the new supplier would be able to provide such a product. At no stage did it ever cross their mind to ask whether the new supplier would be able to provide them with data through their smart meter.

Bill Bullen: I cannot answer on behalf of all suppliers, obviously, but clearly there are suppliers out there who are engaging in SMETS 1. We have interoperability in SMETS 1 and we exchange customers all the time. I guess there will always be suppliers who do not have or have not invested in the systems for their own strategic reasons or, for whatever reason, have decided not to support a particular product. That will always be the case. I would not want to make too much of one or two examples, but generally speaking there is interoperability between people engaged in the SMETS 1 meter market.

Q12 Mark Pawsey: You suggest that if people who have a SMETS 1 meter are thinking about switching, they should ask the new supplier whether it can provide to them on a smart basis.

Bill Bullen: It would be a very sensible thing to do right now, yes.

Audrey Gallacher: In the short term, that would certainly be the advice, because, as Bill said, some companies do not have full interoperability. Some companies are not even rolling out any smart meters at all at the

moment, and we have got 60 suppliers out there. So, yes in the short term, but there is an enduring solution coming down the line where all the SMETS 1 meters will be enrolled into the new central smart Data and Communications Company systems. Hopefully that will happen next year.

The Chair: Mr Kerr, you were in the middle of a string of questions. I will give you one more and then move on to someone else.

Q13 Stephen Kerr: I am not clear about the whole issue of interoperability. My personal experience is that when I switched supplier, my smart meter did not continue to be very smart. Frankly, I could not see the value of using the information to make a switch and then losing the meter. Are you saying that is not the case? Should I have asked my new supplier for another meter?

Bill Bullen: No, I am simply saying that I cannot govern all energy suppliers. If you switched to an energy supplier that decided for its own reasons not to support a smart service—

Stephen Kerr: No, it does.

Bill Bullen: As I said, there is interoperability between SMETS 1 meters. In fact, there are only two or three types of meter out there, so actually the same headings are operating all of those meters. The interoperability problems of SMETS 1 is an issue that has been massively overplayed. Frankly, it is also giving some suppliers an easy excuse not to support a SMETS 1 product, saying that interoperability is difficult. It is not difficult. At the end of the day, you are talking about very few electronic messages that you need to exchange with a smart meter system, and it is not difficult. It really is not.

Q14 Patricia Gibson (North Ayrshire and Arran) (SNP): Like probably most people in this room, I can see that there are benefits to smart meters, but I wonder whether I could put to you a number of concerns that have been raised specifically with me about the roll-out. Perhaps they might explain the difficulty in penetrating the market as quickly and deeply as we would like at this stage, and indeed by 2020.

Would you like to comment on concerns, raised by trading standards, that not enough of the energy companies are making it clear to consumers that they can refuse a smart meter if they wish? There are real concerns that some energy companies may be guilty of breaching the Consumer Protection from Unfair Trading Regulations 2008.

What do you think about the idea that consumers are being sold the meters—by "sold" I am talking about the idea—as free, when we all know that in fact they are not free? The other thing is that, as far as I am aware, some of the models rely quite heavily on a wi-fi signal, which may or may not be available to all consumers. I may have got that wrong, because I am not terribly technically minded.

One of my concerns is what we do with the information when we have it. If we imagine a future where everybody has a smart meter, will that be used to charge a higher rate for electricity usage during peak times, when families cannot avoid using it? Will the need to use electricity at specific times be used to increase the price in the market?

I realise I am throwing a list at you, and I apologise for that. The idea that you pay for what you use is attractive to consumers, but the fact is that when a smart meter is installed on your property, as I know from my own experience, your direct debit bill stays exactly the same, because they spread it over the year. Yes, you are paying for what you use, but when you reduce your usage, your monthly or quarterly bill does not necessarily go down. What are your thoughts on that, given that it is sold comprehensively as, "You only pay for what you use"? You do, but not necessarily at the time when you use it. You will also know that there are concerns about the security of the data. I know that I have given you a long list, but I would be very interested to hear your thoughts.

Audrey Gallacher: I will run through it as quickly as possible. The questions you have raised are all legitimate ones, which are discussed on an ongoing basis through the programme. There is a lot of scrutiny and oversight of the programme, and everybody is working hard to get it right, so your questions are the right ones.

Loads of stuff has been done on security. This will not be happening over the internet, and GCHQ has been all over it. There are really strict security protocols; you will probably have experts in later today who will know more about it than I do, but if there is anything that we should be worried about in the programme, it is not security. A lot has been done there, for obvious reasons. It is a critical national infrastructure, not to mention the impact on individual consumers in their own home if something goes wrong. I would take some comfort that we have that.

The question of deemed appointments is a tricky one. This is an opt-in programme. The Government's manifesto commitment is that customers should be offered a smart meter, but suppliers have an obligation to install them by 2020, so it is already quite a complex policy environment. Companies have to go out there and sell the benefits of smart meters and encourage consumers to take them. We are working hard to do that. We have also had some feedback from Ofgem, the regulator, that companies should be taking a much more assertive approach, because we have heard reports that they are really struggling to get people to take a day off work to stay in the house and get the smart meter installed.

We need to sell the benefits and we also have to try to encourage people. Clearly, there is a line there that should not be crossed, because it is not currently a mandatory programme. At some point in the future, we might want to think about the policy framework to ensure that we get as many meters out there as possible, and not just for the individual consumer benefits they would bring—a whole business case around the programme is predicated on as many people as possible having meters. We need to be really careful on communications: sell the benefits and encourage people to get meters, but do not cross that line. That is really important.

Thirdly, you currently pay for metering equipment. It is free at the point of installation, so there should be no charge. Let us be quite clear that nobody will be charged up front, but, like everything else in the energy system, there is an associated cost, whether it is the pipes and wires getting the gas and electricity to users or the metering equipment, right down to the customer service. The key is to make sure that it is done as efficiently as possible. It is a competitive market and it is really important that costs are kept down.

I have a lot of sympathy with the point about direct debits and budgets, but we know from research that people like to spread the cost of their energy over the year. They do not want to see big spikes on their bills—high bills in the winter when they are using loads and nothing in the summer when the gas central heating is off. Smart meters should allow customers to move to an option where they can pay monthly as they go, but for a lot of people direct debit is a budgeting tool and has been very popular.

As for the future, Bill spoke about what he is doing for prepayment meter customers. Some analysis suggests that when everybody has smart meters, up to 50% will not be paying by direct debit, but on a pay-as-you-go basis, as with mobile phones. You will probably see the market and how people engage with their energy supply and pay for it radically changing as we roll this out. That will be good, if there are innovations and benefits. Obviously, we need to make sure that people are adequately protected and know what they are doing from a trading standards perspective.

Finally, on data, a lot of protocols are in place to make sure that we are quite clear that it is customers' data coming out of the meters. People can opt out of more granular data collection. If you do not want information to be taken daily, you can opt out of that. Right now, it is taken monthly. If the supplier wants to take data from the smart meter every half hour, the customer has to provide consent. A lot of rules have been put in place to ensure that data use and privacy are at the forefront of the programme.

Bill Bullen: A couple of points are relevant to us. First, on customers accepting meters, until the prepay price cap came in we were typically saving customers something like £100 compared with the big six, if they switched to a prepay meter. Whether that counts as being free or not, I do not know, but they were clearly making significant financial savings from switching to smart prepay. That is one of the reasons customers do it, in addition to the other benefits.

Clearly, we are a competitive company. Customers could always refuse to take our product; if they want to stick with a dumb meter, they are entitled to. Something like 80% of the prepay market still has not switched to smart, but 20% has, so more and more are doing so.

Audrey has already answered the point about direct debits. People are going to switch more to pay-as-you-go and be totally in control of the balance. We think that is going to be much more important going forward. Basically, people can take total control over their budget.

Q15 Steve McCabe: I have three quick questions. If I have this right, the programme is behind schedule, the cost is escalating and the Minister now wants to increase the timescale and take extra powers. What needs to be done to ensure that this thing stays on track and within cost and does not become an albatross for the consumer?

Bill Bullen: That is difficult. We are already a long way down the track of delays and cost escalations. Consumers already pay a significant chunk of their bill towards the Government's smart meter programme.

Q16 Steve McCabe: Do you know how much?

Bill Bullen: It is going to go up to, I think, £13 per customer from 1 April. That is something like £8 higher than it was a year ago. Once you multiply that by 27 million households, it is a lot of money.

The Government have spent something like more than £1 billion—I think £1.3 billion—on the Data and Communications Company. To put that in perspective, I think the competitive suppliers providing similar services for SMETS 1 generation meters have not spent 10% of that money. They are already out there working, and have been since 2013, so I think there are some real issues.

Clearly, consumers have already seen massive delays and are being stopped from getting the benefits of smart meters because of the Government programme. One of my key concerns, as I said earlier on, is how we will be able to carry on in business over the next couple of years, because of some of the intricate rules about what type of meters we can install when.

We desperately need a lot more flexibility to carry on rolling out smart prepayment meters without any kind of significant hiatus. It is not in the consumer's interest to have a hiatus, and it is certainly not in the interest of the economy generally to have potentially a lot of qualified meter installers, vans, and warehouses, but no ability to install meters. That is a big problem.

Those problems are with us right now and we have to solve them very soon, because the sheer logistics of managing supply chains—not only ours, but the supply chain to the meter manufacturer, all the component purchases and so on, which stretch out a year in advance—mean that we are already right up against the buffers of maintaining a smooth roll-out programme, given that the SMETS 1 end date is currently stated to be in July next year. That is a really big issue. We are heading at the moment for a massive hiatus in the roll-out of smart meters.

Audrey Gallacher: It would be a huge mistake to underestimate the size of the challenge here with the smart meter roll-out. It is a massive logistical infrastructure programme—53 million meters—so it will be tough. As Bill said, we have already seen some issues around delays and costs overrunning. There is an impact assessment out there—a business case that says there is a net benefit to customers of nearly £6 billion. It is critical that we protect that business case, regardless of how difficult it becomes.

It may well be that the Department for Business, Energy and Industrial Strategy should look at a re-run of that against what we are seeing currently—a new impact assessment to ensure that the benefits case is still alive. There is also a lot of engagement with the Government and energy suppliers on the programme, because we are all working on it together to get it done. You could argue, though, that we might want to see a wee bit more of that. Is there more that we could do to understand what constitutes best practice, within competition rules obviously, and make sure that everybody is doing it as best as they possibly can?

Q17 Steve McCabe: Are you suggesting a new cost-benefit analysis?

Audrey Gallacher: I am suggesting a re-run of what we have done. One analysis was done in 2014; the most recent one is from 2016. Going into next year, it is important that we understand that that benefits case remains intact. Also, we are here today to discuss whether we have to change the regulatory framework to make sure that those benefits are delivered, around the nature

of the programme being opt-in versus opt-out, the cost control over the DCC, and the transparency across the control on those costs. There are many things that we need to keep under tight scrutiny.

Bill Bullen: I do not think it is really feasible to re-run the cost-benefit analysis simply because of time. Everybody understands a lot more about smart meters now—the logistics, the costs and the benefits. I think that businesses are in a much better place to just get on and do the job, rather than have another round of consultations wondering what we are going to do. That would soak up most of the next 12 months if we were not careful—a critical time for delivering this benefit to consumers. I differ with Audrey on that point.

Q18 Steve McCabe: Thanks. May I ask about the interoperability issue again? If I understood correctly, Mr Bullen was saying that part of the problem was that some suppliers choose not to help people who switch have a functional smart meter. Is one of the other problems the role of the smart meter asset providers who, if I understood correctly, are a bit like the energy businesses' equivalent of a football manager? They are the middle people who provide the meters. It might not be in the interest of energy suppliers that get their meters from one asset provider to switch when a customer switches supplier. Is that how it works?

Bill Bullen: I would not agree with that.

Q19 Steve McCabe: Is that because you have an interest, Mr Bullen?

Bill Bullen: No. There is a set of commercial arrangements around rolling out smart meters. As I say, different suppliers have chosen to engage or not in that. All I can say is that we have built business from scratch that has now got—

Q20 Steve McCabe: Tell me what a smart meter asset provider is. What is the function and role?

Bill Bullen: They are merely providing a funding arrangement to provide the capital, so that suppliers can get meters installed without absorbing that massive hit on their cash flow, or having to charge customers for it. Nobody wants to charge the customer for it, so the meter asset provider will simply provide that capital and then rent that meter to whoever the supplier is over the course of that meter's life.

Steve McCabe: A middle man.

The Chair: We are short of time. I am going to take Bill Grant and then we are unlikely to have further time. This will probably be the last question.

Q21 Bill Grant (Ayr, Carrick and Cumnock) (Con): I have two brief questions. I sense that, despite the efforts, the public may not be fully aware of the roll-out of smart meters and the advantage available. If that assessment is correct, what more can be done?

Secondly, with the accent on rural areas throughout the UK, I take it that the installers and those who provide the meters are in constant contact with those who provide broadband, wi-fi or the signal to make the system work.

Audrey Gallacher: On the point about consumer awareness, the industry funds an independent communications and marketing campaign—Smart Energy GB—who I think are coming along later today to speak to you. I do not want to steal their thunder. They will give you all sorts of information on what they are doing to ensure that consumers are aware of the smart meter programme and, more importantly, are interested and ready to take one.

My organisation, Energy UK, provides the secretariat, the governance around the performance management framework of that company, so we ensure that we set it sufficiently stretching targets so that it goes out and generates the interest. Over the past year we have done a lot of work with it to try to tighten up those targets to ensure that that messaging is aligned with what we need in terms of customers being ready to accept smart meters.

I think there is probably a role for everybody to play. I would argue that I would like to see more of the Minister promoting the smart meter programme. I think it is movement in this kind of mass roll-out stage, if we can get the Government and the regulator and everybody behind it to really sell the benefits of this. Because smart meters are a great thing for customers and for the future of the energy system.

Your other point was about the system. People coming later today will have much more information about this than I do. The Data Communications Company runs the contracts for the service providers who provide the communication around the smart meter infrastructure, so there are three areas. I think—you can put me right—that those are cellular in the central and south, and a mesh type of communication arrangement in the north of Scotland. There will be challenges getting full penetration there to get the wide area network, which is what the communications hub is called. So there is a lot of work going on to ensure that we do that.

Bill Bullen: I repeat what I said earlier. We are certainly not seeing any problem with engagement of consumers. Consumers are taking up this product. We are getting probably 5,000-plus sets of meters installed every week ourselves. So, we are definitely not seeing any push-back from consumers.

In terms of the technology and some of the difficulties that there will be, mobile phone networks are not 100%, unfortunately. I do again call for a bit of flexibility in terms of the actual technology that supply businesses are allowed to use, because there may just be local spots, whether rural or urban areas, where you simply cannot get a decent enough signal. There will be problems but, at the moment, I really do not think we have enough flexibility in the programme to address every particular case. It is going to be a problem.

Bill Grant: Thank you very much.

The Chair: We have about 20 seconds. Is there a last quick question? No, okay. In that case, we will now move to our next panel. Thank you to our witnesses for giving us evidence this morning.

Examination of Witnesses

Angus Flett and Rob Salter-Church gave evidence.

10.10 am

The Chair: We now hear oral evidence from Ofgem and the Data Communications Company. We have until 10.40 am for this session. Could the witnesses please introduce yourselves for the record?

Rob Salter-Church: Good morning. My name is Rob Salter-Church. I am a partner in the consumers and competition division at Ofgem, and I have responsibility for our work on smart metering.

Angus Flett: Good morning. My name is Angus Flett. I am the CEO of DCC.

Q22 Richard Harrington: Thanks to both of you for coming this morning. May I ask Ofgem, in particular, what you are doing to ensure energy suppliers deliver their obligations?

Rob Salter-Church: I might first explain the role of Ofgem and the Government in the roll-out, because that sets out the context for answering that question. To be clear, the roll-out of smart metering is Government policy. The Government have powers, and one of the parts of the Bill we are considering today is to extend their power to put in place the licence arrangements around smart metering. Ofgem's role is to oversee suppliers and DCC compliance with the policy framework that the Government have put in place.

We are hugely supportive of smart metering, and we think it has real potential to improve consumers' outcomes. Through regular engagement with suppliers, we are overseeing their compliance with their licence obligations. We do that through regular bilateral engagements, gathering significant information from suppliers and working in partnership with Citizens Advice and the energy ombudsman to gather information about consumers' experience of smart metering.

We use the data we gather to hold suppliers to account, challenge them and make sure they are doing what they are required to do in terms of installing smart metering—adhering to their roll-out plans and, perhaps more importantly, delivering a good-quality installation, providing energy-efficiency advice to consumers when they do that and making sure consumers are aware of how they can realise the benefits of smart metering.

We have a range of tools in our toolkit that we can use to secure supplier compliance. Ultimately, if we feel that a supplier is not doing what they need to do to stick to the rules and make the programme a success, we can take enforcement action against them—a process that enables us to levy a fine against that organisation if it is failing to meet what is required of them.

Q23 Steve McCabe: I notice that it says in your written evidence that you see a significant benefit for consumers, and you have repeated that. How will the benefit be realised? What are the practicalities? How will it be realised for the most vulnerable customers—the elderly and the most disadvantaged? How will we see that, and what kind of timescale are we talking about?

Rob Salter-Church: There is a whole range of benefits that consumers—including vulnerable consumers and those on prepayment meters—can get. One of the key ways in which consumers can benefit from smart meters is through being in control and having access to real-time information about their energy usage and what it is costing them. Many people, including vulnerable people, are often worried about getting an unexpected bill—having a bill shock that they are unable to meet—and falling into debt. One of the great things about smart meters is that they give real-time information so people are in control and can manage their energy usage to prevent those kinds of issues from arising.

Another benefit that will accrue to all people, but may well have particular relevance for more vulnerable customers, is the end to estimated billing. They will know exactly what they are being billed and will be able to make sure they are not being over-billed by their supplier.

The last thing I will say is about prepayment meters. Smart metering has the potential to absolutely transform the realities of energy for prepayment customers. People will no longer have to go out in the rain to go down to the shop to put credit on their meter; they will be able to very simply and easily top up the meter when they need to. The functionality also enables suppliers to be able to help customers manage their energy usage. For example, rather than running out of credit overnight, the smart meter technology allows the supplier to offer services to customers that enable them to have a small amount of energy to ensure that the heating and lights are still on in the morning. Those kind of quality of service benefits are huge, and they should accrue to customers through the point at which they get a meter installed.

Q24 Steve McCabe: Am I right in thinking that you are responsible for enforcing the code of practice?

Rob Salter-Church: Are you referring to the smart meter installation code of practice?

Steve McCabe: Yes.

Rob Salter-Church: That is correct. Suppliers have a licence obligation to have that code of practice.

Q25 Steve McCabe: So how is it that people can receive a cold call telling them that it is a legal obligation to have a smart meter?

Rob Salter-Church: It is very troubling when we hear things like that, because, as the Committee knows, that is not the case. We are clear to suppliers that they need to try very hard to explain the benefits of smart meters. I struggle to see why someone would not want a smart meter, given the benefits that they offer to consumers. Suppliers do need to be clear that if a customer does not want one, they do not have to have one.

Q26 Steve McCabe: But it is wrong for anyone to phone up and say, "You are legally obliged to have one." That person is clearly breaching the code of practice.

Rob Salter-Church: That is right. We gather data on a regular basis on suppliers' compliance with the code of practice. If we saw a systematic problem, then we would take action against a supplier.

Q27 Patricia Gibson: I want to probe this a little further; I raised it with the previous witness and I would be interested in your thoughts, given that you are in charge of the code of practice. Trading standards have raised concerns that there are potential offences being committed under the misleading actions provision of the Consumer Protection from Unfair Trading Regulations Act 2008. They have said that these infractions may be being committed because some energy suppliers are giving the impression that smart meter installation is compulsory. What are your thoughts on that? Have you had any contact or dialogue with trading standards on their very serious concerns?

Rob Salter-Church: The first thing I would do is to reiterate what I said earlier: we expect suppliers to be very clear that there is no compulsion on consumers to have a smart meter. We are driving suppliers to be as clear as they can on what the benefits are, so that customers want to have a smart meter.

In answer to your point about trading standards, we engage with a range of organisations, including Citizen's Advice, and we do from time to time talk to trading standards to gather information about where there are potential licence breaches. We would take action. I do not believe that I have had a discussion with trading standards, but I can check whether there has been one between the organisations and write in, if that is helpful.

Q28 Patricia Gibson: I think, like you, that there are lots of benefits to smart meter installation. Can you, in your position, understand that people are naturally suspicious? Some consumers are aware that they do not in fact have to have smart meters, despite having been told that they must have them. Others, however, have been told that they need to have them, and they accept that at face value. Some consumers are concerned about what this collective energy information is going to be used for. Is it going to be used to hike prices up at certain times of the day of peak usage? Some people are concerned about the security of the data.

We can all appreciate that there are benefits to smart meters, but can you understand those real concerns of consumers? In addition, there is the fact that the idea of a smart meter has been sold as something free, when it is clearly not.

Rob Salter-Church: Absolutely. I understand that certain consumers would have concerns. What the Government have done in designing a regulatory framework—and what we do in enforcing that regulatory framework—is very important in making sure that the protections are in place and that suppliers adhere to them in order to protect consumers. You referred to data access and security: there is a framework in place, referred to earlier by Audrey, around protections for consumers to make sure that if they do not want to give their data to suppliers, they do not have to. Those rules are important, to give consumers confidence in having a smart meter to make sure that they are in control.

Q29 Patricia Gibson: Do you think that consumers are aware that they can protect their data in the way that you suggest?

Rob Salter-Church: Yes, I believe they are. Suppliers have clear obligations. What the smart metering installation code of practice does is require those to be explained. There is a quarterly survey that suppliers have to undertake to check compliance with the smart metering installation code of practice. That gathers data to check whether suppliers are indeed being clear to their customers in explaining what options they have got around giving access to data. I believe that that is happening in practice.

Q30 Grahame Morris: Just quickly, given that time is short—Rob, your opening remarks were really helpful about the terms of reference as the regulator. However, we are being asked, here, to extend the powers of the Secretary of State. Are any of the powers that we are proposing to change through the Bill related to smart meters, and if so, which ones? Angus, the Bill proposes that costs should be recouped from customers in the event of an administration, rather than from the insolvent company. What is your view on that?

Rob Salter-Church: The powers are solely around smart metering. They are an extension of the Government's existing powers in relation to smart metering and, then, the special administration regime for the DCC.

Q31 Grahame Morris: Can they be used for any other purpose?

Rob Salter-Church: No. We are wholly supportive of the Government taking these powers to ensure an orderly conclusion to the programme.

Angus Flett: The financial governance I have makes it highly unlikely that the special administration will be required. The way I am structured is that I invoice my customers and they are required, under licence conditions, to pay me within five days. I also have the facility to take a month's worth of my invoicing as a credit balance, so I carry cash.

The way I invoice my suppliers is between 20 and 30 days. I also have a £5 million keep well deed from a shareholder and a guaranteed bond of £10 million that I can draw down on. The special administration is set up so that, in the highly unlikely event that we became insolvent, it could administrate and keep the lights on until another organisation could be found to take us over. The costs of that administration can be recovered back on my customer base. So it is a sensible measure, although highly unlikely to be required.

Q32 Douglas Ross (Moray) (Con): Our earlier witnesses were speaking about the ways to the roll out and, ultimately, not being able to meet original timeframes. In the report earlier this year, you were looking at roll out and some potential problems with it. The number of installers was highlighted as an issue. Is that still an issue? If we as a Committee agree to a number of things about extending the timescale, will there still be a problem with there not physically being enough people able to do the job?

Rob Salter-Church: The 2020 target for completing the roll-out as set by Government was always going to be a challenge, and it remains a challenge, as was said earlier. One of the things Ofgem has done is put in place a framework where we require suppliers to submit to us a plan for the roll-out, setting themselves annual targets that we can enforce against if they do not meet those targets.

We scrutinise the plans that we see from suppliers; if they say, "We will install x number of meters per year", we do not just take it for granted that that is going to happen. We require them to show us what that will mean for the installer capacity that you might need. What does that mean in terms of the contracts that you are going to have to sign to buy meters, and so on? We scrutinise that to give confidence that the suppliers have got arrangements in place to make their plans deliverable.

The information you are referring to that we publish is our conclusions, having looked across the piece at some of the biggest risks to the programme, which suppliers must remain focused, laser-like, on managing. Indeed, getting hold of enough installers is one of those issues.

Suppliers' plans for 2017 are broadly on track for meeting their installation targets at the end of this year. A couple of suppliers are slightly behind, but not significantly so. What that tells me is that, yes, there is a real challenge to get to '20, but suppliers are pretty much on track with the plans that they have set themselves for how they will meet their obligations.

Q33 Douglas Ross: So the 2016 problems that you reported in June are no longer an issue. Somehow we have been able to attract people to become installers. How has that been done?

Rob Salter-Church: I would describe them as risks that need to be managed as opposed to problems. On the specifics of installers, some of the tactics of suppliers are to think about their recruitment pipelines, and the Government are involved in work with the relevant national skills academy to ensure that training programmes are in place to develop more installers. The reason why we highlighted that as a risk is that we are expecting suppliers to take more and more action to keep managing it. It will be an ongoing risk throughout the whole programme.

Q34 Douglas Ross: When you spoke about the frameworks that these suppliers entered into and the targets that you can judge them against, how are the targets set for the installations in more remote and rural areas? Clearly, in terms of a numbers game, you can do more far more installations in an urban area than you can in constituencies like mine in the north of Scotland. Such constituencies and the more remote and rural areas actually have the biggest potential to benefit from smart meters, yet we seem to be at the very tail end of the installation process because we are harder to reach and you can do far less in the same amount of time. What are you doing to ensure that the more remote and rural areas do not fall further behind the urban areas?

Rob Salter-Church: There are challenges to installing smart meters both in rural areas and in urban areas—equal but different sets of challenges that the suppliers may face. It is not necessarily a given that suppliers would automatically choose to prioritise urban areas for installations ahead of more rural areas.

Q35 Douglas Ross: Are you saying that is wrong? It is a complaint that is coming from rural communities. They can see that in the bigger communities—the bigger towns and cities—there does not seem to be a problem getting an appointment to install a smart meter, yet in the more rural areas there is. But you are saying that that is wrong.

Rob Salter-Church: I am not saying it is wrong; I am saying that it is not necessarily the case that rural areas will always be delayed because they are more difficult and challenging. There will be a range of challenges that suppliers encounter. The way that the Government have designed the roll-out policy is supplier-driven or supplier-led, and if certain constraints were imposed on suppliers to install smart meters in certain populations ahead of others, that might add cost and complexity and, overall, become a worse deal for GB consumers.

One of the things that we are doing to ensure that rural communities are not left behind is in relation to DCC's communication networks. DCC is already required to deliver a network that will cover 99.75% of the GB population. It is also required to look continually at how it can extend the reach of its network to get ever closer to 100%, to minimise the chances that anyone is left behind. DCC periodically has to report to us on the progress it is making to ensure that its network is as comprehensive as possible. I would like to think that over time, as technology develops and costs come down, there will be more and more efficient ways for DCC to extend its network to ensure that all consumers can have the benefits of smart metering.

Q36 Douglas Ross: The 99.75% is a great ambition, but is it still the case that the more remote and rural areas will be at the end of the programme, when the suppliers must get to the 99.75%, because—I am told—it is more difficult to install the meters there than in those areas that will experience the benefits earlier on?

Rob Salter-Church: That might be a question for Angus, in terms of the roll-out and build-out of the network, and where and when it will be reaching different communities in the country.

Angus Flett: We use two technologies, north and south. In the south it is a cellular technology, and that is an established network. In the north it is a radio technology, which gives a higher percentage coverage, particularly for the geographical aspects of Scotland and some aspects of rural areas. You are correct in that the high percentage coverage does not get rolled out until the last part of the programme. However, we have been working with our customers to see if we could speed that up for particular geographic areas. We are also working with Alt HAN, an alternative organisation set up by the Government, to look at that last 1% or 2% and the technologies we could deploy to resolve that. One of the technologies we use is called meshing, which effectively picks up the signal from one house where it is strong and allows that to repeat. So we are reasonably comfortable and confident that we can deliver the coverage footage.

Q37 Matt Western (Warwick and Leamington) (Lab): I have some quick questions. I am concerned about what I heard in the previous session about the transparency to consumers. I sense that there is no consistency—perhaps you can correct me—between the different suppliers, in terms of information provided to the consumer about the programme, what the customer's responsibilities are and what the provider's responsibilities are, such as frequently asked questions and that sort of thing. Can you confirm the situation?

Rob Salter-Church: Suppliers have clear obligations in terms of what they have to explain to their customers. It really, really matters to us that customers get clear information about smart metering—indeed about everything—from their suppliers. It is important that they treat their customers fairly.

In relation to smart metering, suppliers work with the Smart Energy GB organisation to produce common materials and FAQs to make sure that there is clear information for consumers. That information is produced and the suppliers are working to pass that out to individual consumers. There would be potential unintended consequences if either Ofgem or the Government decided that we knew exactly how to speak to customers

individually—every single one—and set out very prescriptive rules that suppliers had to follow to the letter. We place clear obligations on suppliers on what they explain to customers. They have clear licence obligations to ensure that they always treat their customers fairly. Suppliers have a programme of work going on, working through Smart Energy GB on common FAQs and information that can be shared with consumers, and they have to do that in a clear way that really engages customers and makes them understand the benefits of smart metering.

Q38 Matt Western: Have you withdrawn the licence from anyone so far on the basis of malpractice?

Rob Salter-Church: We have a range of tools if we see problems with licence compliance, including ultimately running an enforcement action and imposing fines. We have not had to use our enforcement powers in relation to smart metering as yet.

Q39 Laura Smith (Crewe and Nantwich) (Lab): Matt just asked my question, but I will add to it. I could possibly be the only person in this room who has had to survive on a pay-as-you-go meter, and I have also lived through then being targeted with high tariffs by energy companies—they come to the estate and sell those things, knowing that they are going to make money out of the poorest in society. I struggle with the transparency of this. data protection and customers' privacy, in terms of information about how they are using their energy, is a real concern for me. I just do not personally buy the argument that it is all for the consumer, when there is money to be made out of people. So that is an issue.

The roll-out is also an issue. We have touched on the fact that it is obviously delayed. Is it going to happen or is it another initiative that is going to cost an awful lot of money? Who is going to end up paying for that? Will it ultimately be the consumer once again? Those are my two main points, before I get on my high horse.

Rob Salter-Church: You talked about having a traditional prepayment meter and some of the poor quality of service that results from that. One of the most important things that the smart meter roll-out will do is end the prepayment disadvantage, in terms of both cost and quality of service. That is absolutely key and there are real benefits for consumers.

You talked a little bit about privacy. There are very clear rules in place for suppliers; they must obtain customers' consent if they want to have any data from them.

Q40 Laura Smith: How easy and transparent is it? We sometimes say that we are making things easy, but how accessible is the information that is given to customers and how is it being rolled out?

Rob Salter-Church: That is a good challenge. We gather regular information by engaging with Citizens Advice, which is a good source of information if people are raising concerns or complaints about their smart metering installation. As I mentioned before, we also gather information from the smart metering installation code of practice survey. We gather information from a wide range of sources. If we thought there was a systematic problem and suppliers were not being clear to customers about information consent, we would absolutely do something about it and use all the powers that we have to crack down on those suppliers and make sure that consumers are protected. I hope I can reassure you that we have both the practical arrangements in place to get the data and the will to do something if we see that there is a real problem.

Q41 Dr Whitehead: Mr Flett, we heard from previous witnesses that there may well be a hiatus in the roll-out and that vans may go out empty, with no meters. A number of people have suggested that that hiatus may be due to the fact that the DCC did not go live until the very edge of the penalty period in which it was supposed to be fully functional. Even when it went live, it was not fully live; there were a number of workarounds in the report that went out about it going live. What is your view of those severe delays, and what would you say about the DCC's state of liveness—if that word exists—in terms of the challenges that SMETS 2 will bring us in the near future, particularly with end-to-end testing?

Angus Flett: I can reassure the Committee that DCC is fully operational and ready to scale. If we look at the facts, DCC was born in 2013. Our first release was due in December 2015 and was actually delivered in October 2016—the following year. The latest release, which was due in November, we delivered bang on track. There are subsequent releases to unlock functionality such as prepaid and so on.

We run regular "ready to scale" forums with our suppliers and customers. The forecasts that are coming through from my main customers indicate that I will be doing well over 200,000 installs a week next year, and that number is growing. In fact, one of my main customers issued a press release saying that it was the first to go live with the installation of SMETS 2. We are also putting in place incremental measures to ensure that, as we cut over from SMETS 1 to SMETS 2, we carry a buffer stock of communications hubs so that my customers can ramp down their old stock and ramp up the new stock. We are confident that we can deliver against the scaling requirements.

Q42 Dr Whitehead: One of the issues that has been discussed recently is that getting proper end-to-end testing of SMETS 2 meters—that is, testing of real meters on real walls—over a period of time, which is necessary to ensure the integrity of those meters, has been severely compromised by those delays in going live. After all, a live DCC is the sine qua non of testing SMETS 2 meters. Do you consider that you have been a particular problem in that respect, or do you think the people who are concerned about end-to-end testing of SMETS 2 meters protest too much?

Angus Flett: Testing is essential. This is a UK national infrastructure project and we will not go live without full integrated testing. We use a range of emulators to simulate testing. As I said, the evidence I have from the main customers that are driving installations is that we are on track. The volumetric forecasts that they are delivering to me indicate well over 200,000 installs a week. I do not have concerns in that sense.

Q43 Dr Whitehead: How many SMETS 2 meters have actually been installed so far?

Angus Flett: There are just over 250 out there at the moment.

Q44 Dr Whitehead: Two hundred and fifty?

Angus Flett: Two hundred and fifty installs.

Q45 Dr Whitehead: That is a bit of a shocking number, is it not?

Angus Flett: At this stage it is an acceptable number, as each of my main customers gears up its volumetric installs. As I said, if the forecasts that come through—

The Chair: Order. I am afraid that that brings us to the end of the time allotted for the Committee to ask questions. I thank the witnesses on behalf of the Committee for their evidence.

10.40 am

The Chair adjourned the Committee without Question put (Standing Order No. 88).

Adjourned till this day at Two o'clock.

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

SMART METERS BILL

Second Sitting

Tuesday 21 November 2017

(Afternoon)

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No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Saturday 25 November 2017

The Committee consisted of the following Members:

Chairs: Mike Gapes, †Mrs Cheryl Gillan

† Carden, Dan *(Liverpool, Walton)* (Lab)
† Debbonaire, Thangam *(Bristol West)* (Lab)
† Freer, Mike *(Finchley and Golders Green)* (Con)
Gibson, Patricia *(North Ayrshire and Arran)* (SNP)
† Grant, Bill *(Ayr, Carrick and Cumnock)* (Con)
† Harrington, Richard *(Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy)*
† Kerr, Stephen *(Stirling)* (Con)
† Lewis, Clive *(Norwich South)* (Lab)
† McCabe, Steve *(Birmingham, Selly Oak)* (Lab)
† Morris, Grahame *(Easington)* (Lab)
† Pawsey, Mark *(Rugby)* (Con)
† Quince, Will *(Colchester)* (Con)
† Ross, Douglas *(Moray)* (Con)
† Smith, Laura *(Crewe and Nantwich)* (Lab)
† Tolhurst, Kelly *(Rochester and Strood)* (Con)
Warman, Matt *(Boston and Skegness)* (Con)
† Watling, Giles *(Clacton)* (Con)
† Western, Matt *(Warwick and Leamington)* (Lab)
† Whitehead, Dr Alan *(Southampton, Test)* (Lab)

Jyoti Chandola, Clementine Brown *Committee Clerks*

† attended the Committee

Witnesses

Derek Lickorish, Director, Smart Meter Ltd

Richard Wiles, Vice President of Sales, UK and Ireland, Trilliant

Dhara Vyas, Head of Smart and Sustainable Energy, Citizens Advice

Sacha Deshmukh, Chief Executive, Smart Energy GB

Dr Richard Fitton, Building Physicist, University of Salford

Dr Sarah Darby, Environmental Change Institute, University of Oxford

Public Bill Committee

Tuesday 21 November 2017

(Afternoon)

[Mrs Cheryl Gillan *in the Chair*]

Smart Meters Bill

2 pm

The Chair: Welcome to the afternoon evidence session of the Smart Meters Bill. It is a little warm in here; if gentlemen wish to remove their jackets, I have no objection—and that goes for witnesses as well. We are on a pretty strict timetable. I am afraid that this session, for our two witnesses here, will be brought to a close at 2.45 pm or sooner. I ask the witnesses to introduce themselves to the Committee and I will then call for questions from around the room.

Examination of Witnesses

Derek Lickorish and Richard Wiles gave evidence.

Derek Lickorish: I am a director and an adviser to Secure Meters Ltd, and have been for the last 10 years. I have spent my last 47 years in the power industry, joining as a trainee in 1970 and retiring in 2007 as the chief operating officer for EDF Energy.

Richard Wiles: I am the vice-president of sales for the UK and Ireland at Trilliant. I have 12 years' experience in the smart metering industry. I worked for Landis+Gyr, which is a supplier of smart metering in the UK and in overseas markets as well. I was involved in the SMETS 2 communication project for a previous company and have been with Trilliant since March this year.

The Chair: Thank you very much, gentlemen. You are very welcome. I believe that the Minister has indicated that he would like to ask the first questions.

Q46 The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Richard Harrington): Thank you, Mrs Gillan, and welcome to the Chair. It is very nice to see you. I will ask just a brief question to give plenty of people a chance.

Thank you for coming today, gentlemen, and helping us. As you probably know, the evidence you are giving today is the beginning of the Committee stage of the Bill. May I ask you both to comment on the interop—I can't pronounce it—on how the Data Communications Company system will help the SMETS 1 meters to be operable throughout the whole system? We keep hearing about it and my shadow and I have discussed it at different times, but I would be very interested in your comments.

Derek Lickorish: I think that interoperability for SMETS 1 meters will come about in two ways. But first, what is interoperability? At the moment, SMETS 1 meters have their own mini data communications company. They have their own communications infrastructure, and it is generally all made by the manufacturer who supplies the meters. There are several of those systems out there. The initial interoperability can come about by making SMETS 1 meters interoperable through their communication systems. That is already available technically, but it requires the participation of the big six to make it happen.

You asked specifically about how the DCC deals with enrolment and adoption—those are the terms used. In the case of Secure Meters, it will take the output from its smart meter service operator system and plug it into the DCC. That, on the current timeline, is due to take place next October. That is based on a whole range of assumptions, and I think it is more likely to come about at some time during 2019, subject to all things here on in going very smoothly for the DCC. So there are two options to make interoperability work.

Richard Wiles: Likewise, at Trilliant, with our meters we offer integration into third-party systems that allow interoperability and for the devices to remain smart. We do that through one of our clients. We also offer a cloud-based smart meter systems operator—SMSO—solution ourselves, and we can provide that interoperability for people who take up our service. That enables them to put meters on the wall pretty quickly, using a similar platform to that of our larger suppliers from the big six energy companies.

We also provide that service through an aggregator that can do secure file transfers that allow even quicker adoptability and the ability to get meters on the wall, but we adhere to the same standards as the DCC for enrolment and adoption as to how we would build that development interface to communicate to our existing infrastructure and make sure that the service requests that come through the DCC path meet the criteria of the DCC, similarly to what happens with SMETS 2.

Derek Lickorish: So SMSO interoperability could be achieved now.

Q47 Dr Alan Whitehead (Southampton, Test) (Lab): The Government have indicated that SMETS 1 meters will no longer be installable after a particular date and have given guidance about what can be installed up to that date. There is a consultation at the moment about whether that date might be changed slightly to arrange for a smoother handover from SMETS 1 meters to SMETS 2 meters. What effect will that arrangement have on the overall passage of the roll-out, and what do you think about the present availability of SMETS 2 meters to ensure that that roll-out proceeds?

Derek Lickorish: We are kidding ourselves if we think that we are about to have a mass roll-out of SMETS 2 meters any time soon. As we heard this morning from the gentleman responsible for DCC, there are 250 SMETS 2 meters connected to DCC, and they are electricity-only; that is 200 more than I thought were connected to DCC. If we were about to have a mass roll-out, we would have at least 200,000 fully interoperable SMETS 2 meters connected to DCC to facilitate end-to-end testing of that system. That is currently not the situation.

The July 2018 date is predicated on the fact that SMETS 2 meters are going to roll out very soon. For that to happen, those meters need to be declared interoperable. Interoperability is essential not only now but in the future. What does that mean for people who

do not follow all this stuff at the molecular level? We decided at the outset of the smart meter programme that we would have many world firsts. There are about seven or eight first-in-the-world developments in this programme, one of which is that every meter must be interoperable with other meter manufacturers' meters so that, should a meter fail, it can be replaced by another meter manufacturer's meter without the in-home display being replaced. That is a key tenet of the programme.

A process known as smart meter design assurance is supposed to be up and running to prove that SMETS 2 meters are interoperable. That is not up and running, and it has some technical difficulties. Yesterday, a letter arrived to say that one SMETS 2 meter manufacturer has a problem with compatibility of the hub. That is not to say that that will not be solved, but that was only yesterday. Is it just that manufacturer's SMETS 2 meter or is it all of them? In theory, it should be all of them, because they have all been made to precisely the same specification.

This programme is the first in the world for device-level interoperability, it is the first in the world to separate out the communications system and it is the first in the world to get all the people involved in the SMETS 2 roll-out designing to a 6,000-plus page specification. I hope you can see from that that I do not think we are going to be going very quickly very soon. Having said that, I do not think that the 2020 date should be changed. I believe that the industry should be galvanised into action to solve the problems and then there should be a reflection on what the 2020 date should be. We should not have a date that nobody believes is possible.

Richard Wiles: Trilliant's view is that there needs to be some coexistence between SMETS 1 and SMETS 2 beyond 14 July next year. Our response to the consultation is that we are concerned that smaller suppliers, which may not have done any SMETS 2 installations to date, may be in a position where they are not first in the supply chain for meters, communications hubs or other parts of the end-to-end system testing. We believe there should be coexistence and that SMETS 1 should run with SMETS 2 until SMETS 2 deployment has been proven at scale and can take over the quantity of SMETS 1 meters that will be deployed.

From our supply chain, we are concerned that if we are forced to turn off our supply manufacturing chain and then we get the go-ahead to recommence production, we will then have to ramp up. For the products that we develop, we have specialist components to ensure that the security is maintained. We need to ensure that other key, core aspects of the supply chain are readily available so that, should the call come to bring SMETS 1 up again at a date beyond 14 July, we can serve and make a credible difference to the actual roll-out and then achieve the 2020 planned deadline.

Dr Whitehead: If, as we have heard, SMETS 1 can be made fully interoperable with software upgrades, what is the purpose of SMETS 2 meters?

Derek Lickorish: What is the purpose of SMETS 2 meters if we can make SMETS 1 interoperable? To be able to answer that question, you would need to have a review and some evidence on which to base that decision. At the moment, it is beyond my sphere of full knowledge on everything to give a clear-cut answer to that question.

Richard Wiles: SMETS 1 and SMETS 2 need to run in coexistence. I believe that some clients are in prepayments mode, and prepayment is available in SMETS 1 now. I am talking about some specific instances where SMETS 2 is required: for aspects such as high-rise buildings or dual band comms hubs, when that comes into effect, when greater interoperability is required. Certainly from our position, we believe that we can deploy a larger volume of SMETS 1 meters and still help the Government meet the 2020 deadline.

As to SMETS 2, there are specific advantages around interoperability that have been touched on. While each individual SMETS 1 provider creates mini DCCs, as Derek mentioned earlier on, that will be avoided with SMETS 2. However, with enrolment and adoption, we are working with DCC at the moment, and that will allow the interoperability of our estate to be absorbed into the wider continued operation of the smart meter system through DCC.

Derek Lickorish: Can I add to my answer to Alan's question and build on a point Richard made about interoperability? Although SMETS 2 has some advantages on the one hand, it is not at the data level. If you take mobile phones, they can keep on being produced because they are data interoperable with the network. SMETS 2 meters have to be identical not only for the meter installed today but for those in 15 years' time as well. This backwards compatibility requirement is built into what we have. SMETS 1 meters are data interoperable, which is why we can make SMETS 1 interoperable relatively easily from the mini DCC position.

I know that all these things are grindingly complicated. We are trying to explain them in a way that I hope is straightforward.

Q48 Steve McCabe (Birmingham, Selly Oak) (Lab): After this morning's witnesses, I was left with the impression that the DCC programme is absolutely fine, on target and all is going well. Has the DCC programme been delayed? If so, what have the problems been?

Richard Wiles: There have been publicised delays within the go-live period. The go-live date of November last year was when we had a release of DCC that allowed devices to be installed and to be made interoperable. A statement was made this morning that there are 215 meters on the system. It was envisaged that there would be a considerably higher volume than that now.

Q49 Steve McCabe: What would you have expected? What was the figure meant to be?

Richard Wiles: For the initial programme, by this stage, the figure was meant to be in the millions.

Q50 Steve McCabe: So 215 was the success figure, but it should have been millions. Is that right?

Richard Wiles: Yes.

Steve McCabe: Thank you.

The Chair: Have you anything to add on that, Mr Lickorish?

Derek Lickorish: Quickly, yes. Do not forget that the go-live date of November 2016 was a year late anyway. If you look at the original plan, as put together in the

business plan by the DCC, the idea was that six months after go-live it would be ready at scale and six months after that the system would be stabilised. It went live last year, in November 2016, and as we all now know, clearly, from the horse's mouth, it has 215 devices on it now.

Q51 Steve McCabe: That is the DCC; it does not sound quite as rosy to me as it perhaps sounded a couple of hours ago, but let me ask about the existing smart meters in operation. To your knowledge, how many of them, and what proportion of those that have been installed, are currently running in dumb or dummy mode?

Derek Lickorish: When they all go in initially, of course they are not in dumb mode. The percentages vary. I am told that at some stages 20% or more of them are being operated in dumb mode. That occurs for a variety of reasons—for commercial and technical reasons. The way in which the market is evolving is that meter asset providers—MAPs, as they are known—fund these assets that are going on the wall and they will also fund SMETS 2 assets. All the time, there is uncertainty about how long these assets are going to endure and whether the market going to endure. When are SMETS 2 meters going to be ready?

There is an issue called deemed rentals that occurs. What does that mean? It means that if the acquiring supplier does not have the same sort of contract that is with the asset coming in, it gets asked to pay a very high deemed rental, which it will not pay because it renders the customer unprofitable. That means that it faces two choices: putting the meter into dumb mode, or going out and taking out that meter, even if it is the same meter, and putting in one of its own, funded by another meter asset provider.

There is quite a complex set of issues, which only we in this room and others—interested observers—understand to any degree. There is the deemed rental issue and then there is the technical issue, as we have heard. I do not criticise anyone, because everyone is breaking their back to get this programme running. Everyone is working hard, so I do not decry what anyone is doing, but the way it is set up—and it is driven by political milestones—is going to cause perverse behaviour from time to time. I will come back to that.

My final point—I need to shut up—is that we need to get to a situation in which the interim interoperability model can be made to work. It can be made to work because most of the big six have a system called instant energy—a number of them—and we could have some interoperability there, whereby they could take over the asset and resolve this commercial issue. That would deal with consumers' meters going into dumb mode on change of supplier. It would stop all the stories that the *Daily Mail* keeps printing about all the problems with SMETS 1 meters. It is not a technical issue, and the SMETS 1 meters are not inferior. Sorry, Mrs Gillan.

The Chair: Not at all. Mr Wiles, have you anything to add?

Richard Wiles: We have the ability to transmit data into the system that Derek has just referred to, to keep it live. On the point about how many units are kept in dumb mode, or put into dumb mode or non-smart mode, we do not get to see those figures. That is between the energy supply companies; it is not a direct result of the service that we offer, so I cannot give you a definite figure.

However, we can make sure that any unit put in the non-smart mode can be retained live and be reactivated at a later date, and that can be part of the enrolment and adoption figures. Even for smaller suppliers, if they inherit a smart meter system and do not wish to keep it running, or have a separate service until enrolment and adoption goes live, it can be reactivated at a later date.

Q52 Stephen Kerr (Stirling) (Con): Thank you for the clarity with which you are answering our questions, by the way. This morning we heard evidence that suggested that SMETS 1 meters were in fact interoperable and you are confirming to us that they are not. You described a status of interim interoperability. Can you revisit what you meant when you said that?

Derek Lickorish: I heard Mr Bullen talk about interoperability, but it is not interoperable unless you have the interim interoperability, which I discussed. Suppose these three cups in front of me here were Secure Meters' mini DCC, CGI's mini DCC and Trilliant's mini DCC. If I had five million cups, I would line them all up, and each one of these three would be talking to a whole pack of cups. We have been able to get these boxes to talk to this box and this box. That is where the interoperability occurs.

The Chair: Mr Lickorish, that is a very good example, but I have to tell you that for the *Hansard* reporters—*[Laughter.]*

Derek Lickorish: Then you will have access to more cups than I do. For the benefit of *Hansard*, we are saying that we have mini communication systems—each manufacturer has its own mini communication system—to talk to meters, whereas DCC will talk to the whole estate in one go. In Secure Meters' case we have invested in it ourselves, for our consumers' benefit, not just our customers'. It will talk to these other systems, and we have even demonstrated it to BEIS earlier this year, to show that it works.

Q53 Stephen Kerr: And it is on the basis of this status of interim interoperability that you believe that we should put the pedal to the floor towards the 2020 deadline. Is that what you said?

Derek Lickorish: That is an option you could take, but as currently structured, no one knows quite what will happen to them, as far as July 2018 is concerned, if they keep on doing this. I understand all the reasons and I want us to get the right outcome for the consumers and for the industry, but all the time we have uncertainty built into everything we are doing. For example, when is July 2018 coming to an end? A lot of other people who have not started on this are all waiting for SMETS 2, because it is always just round the corner. How big is the corner?

Q54 Stephen Kerr: We have 7 million of these SMETS 1 meters on walls, 20% of which you estimated are now in dumb mode. Many of these meters will be unplugged. If people have changed supplier, they have probably unplugged it because it is are not providing any functional service to the consumer anymore. How do we update the SMETS 1 meters to make them SMETS 2 compatible?

Richard Wiles: The whole point of enrolment and adoption, which we are working on now, is to make sure that our estate will be able to go into DCC world and provide a similar level of functionality that SMETS offer. We are addressing that right now. It is an active programme that is underway. That will provide true interoperability, not just for the energy supply companies, but for any licensed holder of DCC, energy supply network operators and licensed third parties as well.

Q55 Stephen Kerr: How do you update them, though?

Derek Lickorish: You can update them. This is a very detailed discussion and I am happy to talk to you separately about it. This term "unplugged" means that they may not be looking at the IHD. The system is still connected and has not been unplugged. If a secure meter that has gone dumb, we can still talk to it, so it is not an issue.

Q56 Stephen Kerr: So the visual data might be—

Richard Wiles: For our estates, part of the process is to make sure that when the initial releases come out, there is an upgrade path to ensure that the firmware on the devices is SMETS 1 compliant. We have had extremely high percentages—in the high 90s—over the upgrade paths to make sure that the firmware is compliant with the meters to ensure that they can be enrolled and adopted. We have excellent, proven records to show that we can do OTAs at scale, throughout the entire programme that we have been deploying SMETS 1. I do not believe that there is any issue with the product not meeting the standards.

Derek Lickorish: Similarly, we have had huge numbers of over the air firmware upgrades, which is where I think the rubber will start to hit the road for DCC when it starts doing that. Not only have we done that in this country in the way that Richard spoke about, we have been heavily involved in Australia—over a million meters, using silver springs technology, silver springs embedded in our meters.

Out there, we will have done millions of over the air firmware upgrades. It is not until you start that part of the journey that you really begin to understand the issues. That is why I say that this is the moment when the industry should be galvanised to start solving all these problems, and agree that the 2020 date should not be altered now, but that it is part of the journey to find out what else needs to be done, because there are so many world firsts and they take time to solve.

The Chair: For the convenience of the Committee, I have four indications of questions that have to be asked before 2.45 pm, so moving on now to Mr Pawsey.

Q57 Mark Pawsey (Rugby) (Con): May I move on to a bit of the Bill that we have yet to cover in our deliberations, the special administration regime? The Government say that the risk of the DCC failing is very low, but none the less want to put in this special administration regime. In what circumstances could you envisage the DCC failing, and do you agree that the likelihood of that happening is, as the Government say, very low?

Derek Lickorish: This is not my expertise, but I am under the impression that Ofgem has a responsibility to make sure that DCC can carry out its operations. If, heaven forbid, it does not work, that is probably the worst case scenario, and what happens then?

Q58 Mark Pawsey: How would you define it not working? What constitutes not working?

Derek Lickorish: We have just been talking about over the air firmware upgrades. Remember, this is a world first: we are world first with so many elements of this that have not been tested. If we are unable to do over the air firmware upgrades at scale, that must be a failure.

Q59 Mark Pawsey: Would that cause the DCC to fail and this special administration regime to kick in, in your view?

Derek Lickorish: It could do. I am afraid I feel out of my depth in being able to construct a scenario. Let us face it, we have said that DCC went live a year ago. Today, everyone is astonished to find that only 250 meters are connected to it, but it is working.

Q60 Mark Pawsey: Are the Government just being prudent by including this clause in the document?

Derek Lickorish: I think it is a very prudent situation. There must be an anxiety, otherwise why have they done it?

Richard Wiles: Likewise, I am not able answer as to the exact reasons, but bringing previous Acts together under one is a sound idea. With regards to how DCC would reach that situation, again, I have no absolute definition as to how that could happen now.

Q61 Matt Western (Warwick and Leamington) (Lab): This is not my specialist subject, but I am interested in the asset provider side. I am trying to get my head around this. Could you give me an idea of how many manufacturers are supplying to the industry?

Richard Wiles: There are different manufacturers for SMETS 1 and SMETS 2.

Q62 Matt Western: For SMETS 1, sorry.

Richard Wiles: There are probably about half a dozen different manufacturers that are providing SMETS 1 solutions, and it depends on the scale that they are deploying at. We are the two companies sitting at the top of the table; collectively we have the largest market share of the SMETS 1 devices going out there. We have supplied multi-millions of devices, smart meters, communication hubs and connected devices that hang off that through our communications hub and mini DCC head-end systems. There are other companies out there that have provided a smaller amount, but I cannot give you a definite figure on the volume of that.

Q63 Matt Western: These units are provided to the companies to install, and that is written down essentially over a lifetime. What sort of lifetime are we talking about for one such product?

Derek Lickorish: The old Ferraris disc meter had a lifespan on circuit starting at about 18 years. It came in, you put an airline on it, took the dust off it, and then put it out for another 18. We are now talking about a very sophisticated electronic device, and I do not think we know the long-term answer to that, but it ought to start with 15 years.

Q64 Matt Western: So where we are hearing about another provider possibly coming in, and this question of interoperability—if you have one supplier and you switch to another supplier, there is this, "We are going

[Matt Western]

to switch the unit at the same time"—why can that other company not take over the asset? Is it simply about communications?

Derek Lickorish: No, there are two issues. There is the technical issue, and we are saying that you can deal with the technical issue.

Matt Western: That is what I thought.

Derek Lickorish: Then it comes down to commercial contracts.

Matt Western: That is the point I want to get to.

Derek Lickorish: This was an issue raised some time ago—in fact, probably two, but maybe three, years ago—over deemed rentals. You were getting enormous deemed rentals being charged by some meter asset providers to somebody who was going to use their meter, because they had inherited it on change of supplier. Some of those are not regulated businesses and people smell an opportunity on this sort of thing, in particular when it is in the state that it is—it is all relatively new—but then there are forces that will create anxiety about an asset's longevity in that space, so the deemed rental will be high. It is rational to be high. That is because the framework that sits all around this is uncertain and, as we all know, markets like certainty. These people—they are financiers—want certainty, and if all the time we keep saying, "Well, SMETS 2 are just around the corner, no more SMETS 1 meters" it all creates a fog and a fuzz that will drive what I believe to be irrational behaviour on some of the deemed rentals. Ofgem is aware of it, BEIS is aware of it and this is another issue that the industry needs to galvanise around, because if we are not careful, if we do not get proper interoperability tested, which is in trouble at the moment, a risk premium will be attached to those contracts.

Matt Western: So the costs go up.

Derek Lickorish: So the costs go up. Bear in mind, and forgive me for saying, that this is a £12 billion programme. DCC alone has seen its costs go from £1.3 billion to £2.1 billion. Forgive me, but every £1 billion will give you 10 210-bed hospitals. These are huge sums of money and we need to make sure that the framework that sits around them is accurate and fit for purpose.

Q65 Matt Western: There is a massive issue here, isn't there?

Derek Lickorish: Yes, there is.

Q66 Bill Grant (Ayr, Carrick and Cumnock) (Con): I am still enthusiastic about the potential for smart meters and there is still will behind it. I am trying to make a comparison and I come back to the 1970s, to the introduction of natural gas. They are two different technologies but a massive task throughout the United Kingdom. We mentioned two dates: 2020 was the desirable date and you wish that to be retained, although there was a fall-back date of 2023. At some time in this journey we are going to have to speed up the process. We are going to have to pull our socks up and get the job done. I have two questions in that regard. Do we have the production capacity for SMETS 2 meters to meet the demand when it is at its peak, and do we have sufficient human resources to install those meters commercially, hopefully to meet the target of 2020, but perhaps more realistically at a date beyond that? How are we for capacity: human resources and production capacity?

Richard Wiles: We manufacture SMETS 1 and SMETS 2 devices. We are prepared to ramp up our production line to make sure that SMETS 1 can run in parallel to ensure that any potential shortfalls in capacity can be overcome by our increased production. We can continue to keep the momentum and supply chain running in that respect. Regarding installers, by the end of SMETS 1, we are probably looking at around 12 million devices. If the current installation rate continues through to July next year, that equates to around 1.3 million smart meters per month that need to be installed.

Whether we need additional installers is something that Trilliant has not supplied services on, other than installation processes, but organisations are geared up to supply the installation requirement for SMETS 1 and SMETS 2 to meet that deadline.

Q67 Bill Grant: So you are confident in the supply chain for meters, but not so confident in the human resources for installation?

Richard Wiles: Looking at the existing number that I have been made aware of, that may need to be increased. There may need to be additional practices and we need to ensure that whoever wants a smart meter gets it installed in time by 2020.

Derek Lickorish: It has been worked out for me—it says so here—that the additional resources to meet 2020 need to increase from where they are today by 283%. They need to be ready now to start running to meet 2020. I do not think that is possible because these need to be highly trained people. This is not a straightforward job for an electrician; it is more complicated than that. Before I come to resources, the current productivity rate of the teams working out there is less than half what was originally thought. You have to take that into consideration; it is not factored into my 283% increase.

As for manufacturing, subject to clarity about the SMETS 1 end date, because the supply chain is already winding down for that now, if clarity could be given on that, it would ensure that that manufacturing stream is kept running.

On manufacturing capacity for SMETS 2, once you have resolved the interoperability, once you have SMDA approval, once you have tested all these devices at scale, with DCC, it must be about 12 months. Anything less would have the potential to lock in problems for the future because of the model we have chosen. It is a difficult one to answer, but if we satisfy that, there is no reason why manufacturing capacity will not be available.

The Chair: Thank you. If we can keep the answers brief, we will be able to get in Mr Carden and Mr Morris.

Q68 Dan Carden (Liverpool, Walton) (Lab): Mr Lickorish, you have been very clear about the technical versus the commercial issue in terms of whether this can benefit customers if they can move from one supplier

to another. Are there any answers from Government, or the structure of how this is set up that can deal with those commercial issues?

Derek Lickorish: I think that Ofgem ought to be able to bring the people round the table who can solve these issues. I do not think they are particularly visible at the moment. In the grand scheme of things, there will be those who say "yes", but we have said that we think that 20% are in dumb mode; it might be less than that at other times. In terms of the 80: 20, it does not get the attention it deserves. If we are not careful, this becomes a bit of a cancer and it will grow bigger—20% of 45 million will be a huge number of meters, for whatever reason. It can be solved.

Richard Wiles: Absolutely, I agree with that. We need to ensure that there is some form of incentive. The incentives need to be financial in some form—because some energy supply companies will be losing clients, as well as those gaining—to make sure they have the interoperability requirements to allow them to stay smart.

The Chair: Thank you. The last question goes to Mr Morris.

Q69 Grahame Morris (Easington) (Lab): Thank you, Mrs Gillan. I will also try to be brief. Mr Lickorish, you raised some interesting concepts. I was not familiar with the deemed rental issue, for example. You mentioned perverse behaviour caused by political milestones. Presumably you are of the belief that delaying that roll-out to 2023 is a political milestone that will induce perverse behaviour.

Derek Lickorish: It is no good having a target that nobody believes in. Every programme must have targets. I am not saying, "Change 2020 now." I think that is a good contingency and I am pleased to see that someone somewhere realises that. I do not think it has a perverse effect on behaviour. You can keep on saying it is 2020, but we need a recognition now that says, "We will look at all the issues and have a unity of purpose about what the targets should be", because at the end of the day this is not Treasury money; this is customers' money.

Q70 Grahame Morris: I want to try to understand this, because essentially I am a layman. Looking at the obstacles to achieving the milestones that are already agreed and the performance of the DCC, there seems to be general disappointment about the numbers. A year on and it is 250 when the assumption was that it would be considerably more. If my reading of the explanatory notes is correct, the DCC is regulated by the Gas and Electricity Markets Authority. I am not suggesting that there would be a failure by the DCC, but in that event—for whatever reason, whether it is political interference or technical issues—the Bill has a proposal to give the Secretary of State the power to veto any proposal by the authority to transfer the DCC licence. Do you have any thoughts on that? Are there any circumstances when it would be reasonable to veto the transfer of the licence?

Derek Lickorish: I could give you an answer tomorrow, but I have not thought about it enough, and I do not wish to give a weak, woolly answer because I do not understand the issues at play.

Q71 Grahame Morris: Hypothetically, could there be circumstances where due to poor performance or whatever it is necessary to transfer the DCC licence?

Derek Lickorish: One has to say that it must be possible, so it is right to prepare for that contingency, but I am basing that purely on my own experience of being in the power industry for 47 years. You always have to expect the unexpected. If something seriously goes wrong with this—there is an endemic failure and they are not able to solve it—you must be able to have the power to do something about it. That seems possible.

Q72 Grahame Morris: I am not trying to put words in your mouth; this is just for my understanding. Should the Committee be concerned about the veto proposed in the Bill to prevent such a transfer?

Derek Lickorish: I am not sure that there should be a veto to prevent it.

Grahame Morris: We will ask the Minister about that during the course of the Bill.

Q73 The Chair: Mr Wiles, is there anything you would like to add to this?

Richard Wiles: With the complexities and everything, the whole programme is very complex by the nature of the design. To be honest, I have not examined absolute cases of how it could happen, so unfortunately I cannot answer that question.

The Chair: I think we are coming to the end of this session. I think that was probably the last question, but if you reflect on any of the questions that have been asked today—particularly the last question from Mr Morris—and would like to provide anything to the Committee, you can do so in writing by tomorrow.

Derek Lickorish: By tomorrow?

The Chair: Yes, I am afraid it has to be as rapidly as that, but we would be very grateful to receive any further and better particulars from either of you. On behalf of the Committee, I thank you for coming here today and giving your evidence so clearly to us. I am sure we all feel better informed for having your evidence.

Derek Lickorish: Thank you for the opportunity.

2.45 pm

Examination of Witnesses

Dhara Vyas and Sacha Deshmukh gave evidence.

Q74 The Chair: Ms Vyas and Mr Deshmukh, welcome to the Committee and thank you very much. It need not be said, but if you want to remove your jacket, feel free, in case it gets a little hot in here.

Can you start by introducing yourselves for the Committee, please? Ms Vyas?

Dhara Vyas: I am Dhara Vyas and I am the head of smart and sustainable energy at Citizens Advice.

Sacha Deshmukh: I am Sacha Deshmukh and I am the chief executive at Smart Energy GB.

The Chair: I think you have seen how the sessions are conducted here. Questions come randomly from the members of the Committee as they catch my eye, and may I ask you to speak as clearly as you can for the *Hansard* Reporters?

I think we will start with the Minister.

Q75 Richard Harrington: Thank you very much, Mrs Gillan.

I will continue from the evidence that I know you heard before, because you were sitting—quite rightly—behind those witnesses. How important do you feel it is that the energy suppliers make a swift and smooth transition to using SMETS 2 meters? I ask that because we have heard from people who have been suppliers of SMETS 1 meters and from others who have taken a broader view, so I would be very interested to hear your view, please.

Dhara Vyas: From the Citizens Advice point of view, we are quite keen to see that transition happen as soon and as rapidly as possible. As I am sure you are aware, SMETS 1 meters do not really provide the same sort of functionality as SMETS 2 meters, and a big part of that is the continuing benefits of SMETS 2 meters. You have heard about the interoperability and the ability to switch, but there is also the kind of loss of functionality in terms of the dynamic currency conversion-enabled services, or DCC-enabled services, that they have access to, and things like "last gasp, first breath", whereby a network could see if somebody is off supply and act really quickly. SMETS 1 meters do not have that sort of capability built in. So things that really serve to protect consumers are built in to SMETS 2 in a way that they are not with SMETS 1.

Also, there is quite a key area around confusion as the roll-out progresses at a pace and as suppliers and SEGB are working to promote the roll-out and encourage consumers to take up the offer of a smart meter. With different meters going on the wall, consumers are already confused and will ask questions, such as, "My neighbour can do this, and they switched, and they kept their meter. How come I can't?" So the increased confusion around having more SMETS 1 meters on the wall will cause a problem.

Sacha Deshmukh: I agree that the SMETS 2 roll-out is very important. The only extra contextual point that I would add is that people should remember just what a step forward SMETS 1 meters are from previous meters. So the feedback from consumers who have SMETS 1 meters—several million of them now—is overwhelmingly positive.

I remember a story that was told to me recently. A consumer who had previously been on a prepayment dumb meter had slipped and fallen—she was an elderly lady—and broken her hip, while going out to charge up her key late at night on a petrol forecourt that was wet, in the rain, in a month a little bit like this in weather like this. So a SMETS 1 meter and the capability it offers is a huge step forward for consumers, but I agree that SMETS 2 meters are also incredibly important, for the reasons that Dhara just outlined.

The Chair: Minister, anything further?

Richard Harrington: No. I will give everybody else a chance. Thank you very much.

Q76 Dr Whitehead: Mr Deshmukh, I was very interested to look at your pan-supplier customer funnel, which you set out in your written evidence to the Committee. The November 2018 funnel appears to suggest that getting on for 35 million people will not have a smart meter by that date. Of those, 17 million will be eligible at that point for a smart meter, or will have been persuaded to have a smart meter, but energy suppliers will only plan to book installations for 5 million of them, and 3.8 million will actually get smart meters at that point. I set that against the smart meter roll-out cost-benefit analysis, which came out in August 2016. It shows a concentration of installations at the end of 2018 or 2019 of something like 14 million to 15 million a year at that point. It is not going to happen, is it?

Sacha Deshmukh: The final analysis to which you are referring was conducted by energy suppliers over the summer. I believe that over 90% of the market share of energy suppliers contributed the data to that exercise. One part of the data that they submitted gives you the number of installations at the bottom of the funnel along with their predictions, or their desired number of installs, for next year. I know they have to discuss those plans with the regulator Ofgem, so I cannot take a view as to whether the regulator thinks that those plans are adequate, or on any of those dialogues. As far as I am aware, the data that went into that analysis is the most up-to-date data.

Q77 Dr Whitehead: We have two suggestions here. One is that only 4 million people will go on to have a successful installation of a smart meter by November 2018, and yet it is suggested on the smart meter roll-out cost-benefit analysis that something like 14 million will be required to have smart meters installed at that same point in order for the roll-out to be completed by 2020. So in other words, there is to be a bunching of installations at an incredible level between the end of 2018 and the middle of 2019. Do you think it is possible to achieve that over the period, even with some amendments to your pan-supplier customer funnel arrangement?

Sacha Deshmukh: Our organisation's responsibility lies in consumer demand for the product, so it deals with the top of the funnel, as it were. Consumer demand for the product is very strong. In respect of the consumer demand within that funnel, the top is measured by the number of consumers stating that they want to have smart meters within the next six months, so it is a hard measure of demand. There is demand there. I am not able to comment in much detail on the conditions that might improve the lower parts of the funnel. I apologise if it was not as clear as it could have been in the written evidence, but the figure in the evidence to which you refer related to the six-month period before November, rather than the whole of that year. Those are the latest predictions from energy suppliers, which may be different from the ones to which you referred in the most recent cost-benefit analysis of 2016.

Q78 Dr Whitehead: My point is that it is indeed a slice of the period—3.8 over the six months prior to November 2018—and yet in order to reach the roll-out target, the suggestion is that about 14 to 15 million ought to be installed over that same period. It seems to be rather a large gap.

Sacha Deshmukh: The factors taken into account in that particular analysis, when energy suppliers submitted their data, included their predictions. Some of the issues that I heard the Committee discussing with the witnesses today included their predictions of meter asset availability, and of their ability to actually deliver the installs in question to the expected quality standards. They may have changed their predictions of the number of installs that they would be expecting to deliver from a year ago.

The Chair: Ms Vyas, did you want to add anything to that line of questioning?

Dhara Vyas: No.

Q79 Dan Carden: We have heard positive stories about prepaid customers and the benefits that they enjoy. I believe that most of the roll-out so far has been to prepaid customers. There is a satisfaction rating of around 80%. Are you less able to be positive about the benefits to other customers? What are those benefits?

Dhara Vyas: Our research echoes Smart Energy GB's work, and shows that consumers are really positive about their meters on the whole. That applies to both prepay and credit consumers. Prepay customers stand to gain so much from this. I think it will change the prepay market, the dynamic of the prepay market and assumptions about people who do or do not prepay for their electricity and gas. I agree with you that, yes, prepay customers stand to gain a lot. A lot of customers might choose to have prepay as well because of the flexibility of it.

Early experiences research that we have conducted has shown that all customers like the visibility of their energy use. In the long term, they are quite excited about the ability to have new tariffs linking smart products and services in their homes. It generally does tell a positive story.

Obviously, you will not be surprised to hear that we and Citizens Advice also gain quite a few not-so-positive stories. Early experiences research has found that people do complain about things such as loss of services when they switch. Billing issues are quite a big problem, and that is for credit customers with shock bills or back-billing. There is a lot of anger about "Why am I still getting back-bills?", or "Why is my bill inaccurate when I was sold this by being told that it was the end of estimates—that I would not get an estimated bill but an accurate, up-to-date bill?".

There are issues that need to be ironed out as the technology hopefully embeds. I think suppliers have been working quite hard on agreeing back-billing principles and how to work with customers. A big part of that is communication: make sure you send a meter reading before your smart meter is installed, so you do not get a big shock bill when your new meter goes in. So, there are other areas where credit customers have both positive and negative experiences.

Q80 Dan Carden: We have also heard quite a bit of evidence about the difficulty consumers are having transferring. One company puts a smart meter in, then there is an issue moving to another company. As far as I can remember, for years and years, we have been told that the ability to move from one supplier to another is the answer to reducing bills. This seems to fly in the face of that.

Dhara Vyas: It is the SMETS 1 issue: a SMETS 1 meter is not always interoperable with another supplier's system. That is where SMETS 2 provides a solution. That echoes back to my earlier point that we should focus on moving more SMETS 2 out there.

One last thing I will say is that all consumers, whether on prepay or credit, stand to gain a lot from the energy savings and energy-efficiency advice that will be provided on installation of the smart meter. I think that is quite key. Regardless of meter mode, the experience of having a supplier in your home fitting a smart meter, talking you through the in-home display, talking you through energy-efficiency advice, which is tailored to you and your home, is a once-in-a-lifetime experience. It is really important that suppliers get that right.

Q81 The Chair: Mr Deshmukh, anything to add?

Sacha Deshmukh: I would just add that I think the research Mr Carden refers to is the most recent research by Populus. You are absolutely right that prepayment customers reported 89% recommendation—so, very high. The pattern of the very high recommendation continues to all low-income customers, or customers with a vulnerability in the household, so low-income credit customers are also strongly recommending the product.

Even among households that are not low-income, the levels of recommendation are significantly higher than in other areas of technology. It would be fair if you were then to say that the experience of buying energy through an analogue technology has been particularly poor—and it has. Clearly, those levels of satisfaction are also linked to the fact that this was the last area of pretty much any of our daily lives where people had been reliant on such old-fashioned technology, even in the credit mode.

Q82 Mark Pawsey: May I ask once again about the special administration regime? The previous witnesses were not able to help us tremendously on that. Ms Vyas, you have come out in great support of the special administration regime. You have described the DCC as key national infrastructure. Can you explain why this is such an important part of the Bill?

Dhara Vyas: A big part of it is to do with data privacy. The creation of the DCC means that your supplier has access to your information, but via the DCC. Consumers retain control of their information and allow their supplier to access their information on a daily, half-hourly or monthly—as a minimum—basis.

Q83 Mark Pawsey: This is the provision in respect of the very unlikely possibility of the DCC becoming insolvent.

Dhara Vyas: I am so sorry; I thought you meant a comment on the DCC in general, not the actual provision in the Bill.

Q84 Mark Pawsey: No, I am particularly interested in why you think that the special administration regime is such an important part of the Bill.

Dhara Vyas: As a backstop, because the DCC should not be in a position where it could fail.

Q85 Mark Pawsey: Under what circumstances could it possibly fail?

Dhara Vyas: My understanding of the provision in the Bill is that it is to ensure that financially it is kept afloat.

Q86 Mark Pawsey: Why should it not remain afloat? That is the question I am asking. What is the likelihood of that ever happening? How could the need for it ever arise?

Dhara Vyas: If suppliers are not able to keep on—I think the DCC is funded by suppliers?

Sacha Deshmukh: I am not an expert in special administration regimes either, but my understanding is that however unlikely this is, this form of regime structure is relatively common in large infrastructure suppliers in the country, whether in the water sector, the rail sector or, in this case, the energy sector with this new infrastructure provider. But I am afraid that beyond that, I am not an expert in special administration regimes.

Mark Pawsey: All right, we will save it for the next witness.

Dhara Vyas: The rationale behind our response is very much that it is crucial that it should not fail.

The Chair: We aim to finish this session at 3.15 pm, and I have two colleagues who want to speak, Mr McCabe and Mr Kerr. I call Mr McCabe.

Q87 Steve McCabe: I have two quick questions for Sacha. First, looking at the funnel, it looks as if you need 10 expressions of interest in order to get one smart meter installed. How does that compare with other products? That bit of information does not tell me anything, but if I knew how many people did that to buy a mobile phone or similar, I could put it in some context. Is there an answer to that?

Sacha Deshmukh: As ever, there is a health warning on an answer—there is no direct comparator between the supply and demand in different sectors—but there is actually a very healthy level of demand for the current level of supply. At the moment, I think it is fair to say that consumer enthusiasm is very strong, but supply has not yet been able to meet that enthusiasm on the timescale on which those consumers would ideally have liked that product.

That is today's funnel—or, rather, this year's funnel, as the analysis by the energy suppliers has shown. Looking at next year, you see it at more like 5.5 to one. That is a more normal ratio for a new product, but clearly the goals of this roll-out, and for this country in terms of the benefits brought by it, need us to go much farther than products that are just happy to sell in market, but only reach a small number of consumers who want it. The ambitions clearly have to be comprehensive as well.

Q88 Steve McCabe: Thank you. It is a supply issue, mostly. The other thing I wondered is this. Obviously, your job is to promote smart meters, so your performance management framework is about identifying how to motivate and enthuse people to have them, and that is what your research is about, but have you done any research, or has anyone else, on how people's enthusiasm and motivation change if they have a smart meter, and then change supplier six months later and discover that they no longer have a smart meter? My guess is that their enthusiasm might decrease. Is there any research to tell us what is really going on?

Sacha Deshmukh: The best research that I am aware of in this area is being conducted by Populus, although there is other research as well. As I said, the context is that the vast majority of smart meter consumers are very content and feel significantly better served than they were in the analogue market, but there is no doubt that for those consumers who are less satisfied, it is linked to a customer service issue. Dhara has talked about some of those issues with the legacy of dumb meters: maybe not getting accurate bills for years, and then getting them.

There has been lots of debate, and indeed some regulation has been put in place, about consumer protections in those situations. Citizens Advice also work carefully on that. Indeed, we funded training for Citizens Advice advisers, because they are a very important port of call for people who find themselves in such situations. No doubt some other areas in which there has not been satisfaction have been linked to those customer service issues.

Dhara Vyas: I just want to expand on the customer service breakdowns of what consumers experience with smart meters. We have been collecting consumer data on smart meters from customers who contact our consumer service since 2011. Since then, we have done monthly analysis of what people are contacting us about. Contacts with us have risen in proportion with the number of meters on walls, as you would expect. It is a bit of a canary in the coalmine, with them pointing out and drawing attention to issues with the Department for Business, Energy and Industrial Strategy and Ofgem—so with the Government and Ofgem—and directly with the suppliers.

We hold bilaterals and try to address issues before they become more widespread, and we talk about systemic issues with the entire industry and industry body. They mostly break down into seven categories, including billing and tariff, as you would expect, and as I have touched on. We get quite a few information and sales calls as well, with people asking, "Are they compulsory? Do I have to have one?" We have seen a spike in those recently, with deemed appointments that Ofgem has recently allowed suppliers to—

Q89 Steve McCabe: Do you think that is because people are getting calls saying, "You've got to have one"?

Dhara Vyas: Yes, and some letters from suppliers have been parsimonious with the truth, saying things like, "Your meter is at the end of its life. We are going to come and install a smart meter." There is a lack of clarity about the fact that it is not mandatory. You do have a choice. When I was looking through the stats, I saw that in one case last month, someone felt very strongly that they were being blackmailed into having one, and they did not want one. They felt like they were being bullied. That has recently become an issue, and I know that trading standards are concerned about that. The communication needs to be more refined.

Other contacts include those relating to faulty metering equipment, and people who cannot top up make up a big proportion of those. There are people who are unable to switch, who have switching-related issues or who just have an issue related to installation. For example, an engineer coming in has meant that their boiler has

been condemned because the engineer could not relight it, so there are things to do with appliances in people's homes.

The issues are wide-ranging, but they have a huge impact on people's lives and how they use energy in their home—as long as they can continue to use it. It is important to be aware of those things in order to address them and not let them proliferate.

The Chair: Three colleagues now wish to ask questions—Mr Kerr, Mr Lewis and Mr Morris—and we are aiming to finish at 3.15 pm.

Q90 Stephen Kerr: I will be brief. My question is about engagement and awareness. We are talking about this smart meter roll-out in the context of the fourth industrial revolution and about what should be a centrepiece of national infrastructure renewal in that revolution. My concern is that there is not a lot of public awareness of the total picture of smart meters in the context of the smart grid and the smart economy. I do not think that there is a lot, but what is your experience? Is enough being done to raise awareness? What more can be done?

Sacha Deshmukh: You raise a good point. I am very enthusiastic about the smart British future. Consumer experience in terms of public engagement, particularly with nationally led projects, always teaches you to be very balanced and clear about the benefits available now, what they are building towards, when they will be available and the reality of that. It is about wanting to ensure that people can continue to trust the promise. Not least, all our communications through different channels are regulated by the Advertising Standards Authority, the Committee of Advertising Practice, the broadcast codes and so on. We need to be accurate in the promise to consumers today and give accurate expectations, but I very much take on board what you say.

For a number of our areas of activity, talking about why this matters for the bigger picture will be increasingly important. A consumer spoke to me recently in a focus group. Apropos of nothing, without any information, they essentially summed up an entire sustainable, reliable energy vision that really was a 60 to 100-page BEIS document. They got it and summed it up instantly, so you are right that the consumer appetite is strong. We just need to balance that with the accuracy of the promise to the consumer in the immediate term as well.

Dhara Vyas: I agree with Sacha. The only thing I would add is that I think we have to remember that not all consumers will either want, or be able to, engage. Customers and consumers need varying levels of support to engage with the benefit of not just smart meters but, as you say, the whole wider agenda. Smart meters may be the first internet-enabled thing in the home and it is really important that all consumers are supported to interact with it as much as they want to, or might not want to. There are always going to be some consumers who don't want to and they should not be penalised for that.

Q91 Clive Lewis (Norwich South) (Lab): My question follows on from that. In terms of your own organisation, when does your contract run out for what you are doing?

Sacha Deshmukh: Our organisation exists to support the roll-out, so our lifespan will be that of the roll-out.

Q92 Clive Lewis: Okay. Obviously, there are provisions in the Bill to extend the Secretary of State's powers until 2023. Do you feel there is enough provision in the Bill beyond initial roll-out? It is very possible that many people will have this box on their wall at some point in the near future. There are 250 SMETS 2 and more SMETS 1. What is to stop those from being just boxes on a large number of people's walls that bleep at them every so often? Where is the process for people to be able to engage past 2020, 2023, to be able to get the most from these boxes? No doubt the technology will develop; at the moment it is simply that a little figure will tell you how much energy you are using at the right time, and that will be swapped between you and the energy supplier. What about when people want to engage in some complicated manoeuvring on their SMETS 2 box—where will they get the support for that? It feels to me at the moment that you get a very complex box on your wall that can do lots of magical things, but who is going to explain that to you—who is going to support you in that process?

Sacha Deshmukh: During the lifespan of the roll-out, clearly supporter behaviour changes; that is an important part of our responsibilities. I am very excited that our organisation's targets for next year have been set so that we will really be pushing in this area; there are enough consumers who now have the product for us to really help their behaviour, and it makes sense to do so. Looking forward—though you might say that I am speaking against my own interests and my own organisation—it is always important not to replicate bodies when other bodies exist that already serve consumers in different ways. It was absolutely right, given the scale and intensity of the roll-out, for there to be a body to engage around the roll-out. However, there are other organisations, such as the Energy Saving Trust, Citizens Advice and others. Liverpool John Moores University is looking into what could be done to support people with dementia using this technology. The Energy Saving Trust is looking into how the data could be used. I think that a plethora of organisations could best support consumers, alongside greater automation in the future. It may be counter to my interests not to argue intensively that it must be us; but I think that as this roll-out reaches its conclusions and you have the whole country taking that step forward, people should be looking at which organisations are most relevant to people's lives. They should support the use of this service and create new services for consumers provided by the organisations that they recognise, rather than necessarily having a different body for all time to come.

Dhara Vyas: I agree with Sacha. The SMETS 2 meter is not the key thing here; it is about what it enables and what access to information via the DCC enables. Whether it is healthcare, peer-to-peer selling or generating of energy, there will be a market around it. We are beginning to think through the regulatory impacts of that and the consumer journey as well. How messy will it be to unpick who to go to for what support and help? Will that fall under the auspices of Ofgem, or a different consumer protection body? It is a really exciting future. Potentially it could be messy—if something were to go wrong for a consumer, how would we unpick those problems? The governance and regulation of these future disruptive technologies also needs to be thought through quite carefully.

The Chair: I am afraid that is all the time we have; there are literally 8 seconds left of this session. Thank you again for giving up your valuable time to the Committee and for coming here as witnesses this afternoon. While our next witnesses are taking their places, I apologise to Mr Morris. I have you first on my list for this session, if you wish to catch my eye.

Examination of Witnesses

Dr Fitton and Dr Darby gave evidence.

3.15 pm

Q93 The Chair: We have until 3.45 pm for this session, and it is a hard cut-off, so I have no choice but to bring it to an end at that time. Will the witnesses please introduce themselves?

Dr Sarah Darby: Good afternoon. I work at the Environmental Change Institute at the University of Oxford, where at the moment I am the acting leader of the energy programme. Our work has, over the past 25 years, centred on energy demand and efficiency and, as time has gone on, it has broadened out into distributed energy generally. All demand is distributed, and increasingly a lot of supply is distributed, so we are getting more and more interested in smart grids. I should also perhaps say that I was lead on the synthesis report that was done for the Department of Energy and Climate Change on the early roll-out of smart metering.

Dr Richard Fitton: Good afternoon. I am from the University of Salford. I am a building physicist and I work in and run the Energy House test facility, which measures energy efficiency products in the home. I also lead a task group for the International Energy Agency on the use of smart meter data for determining the energy efficiency of properties.

The Chair: I will start with the Minister.

Richard Harrington: I am happy to let Mr Morris go first. I know he has been waiting for a long time.

Grahame Morris: No, that is okay.

Q94 Richard Harrington: Thank you very much for coming, Doctors, as it were. I thank you for the efforts that you have made professionally to get the programme to the stage it is at now. Although difficult, I would like to ask a broad question that will encompass both your areas. In my Government job, I view the smart meter programme as just the very beginning of a future smart grid for people. I have seen prototypes in America and elsewhere, which you will know much better than I do. What change in human behaviour patterns have you seen up to now for people who have what we could call a very prototype smart grid with smart meters? From both the building and the consumer point of view, what is the vision for the future?

Dr Sarah Darby: I am not sure we can yet say that there is a prototype smart grid. The beginnings of smart energy tend to be different in every country and smart metering in this country is different from smart metering anywhere else. In fact, more attention has been paid to the consumer engagement side of smart metering in this country than anywhere else. This is the only country where a fairly intensive effort is put into customer engagement at the time of roll-out of the smart meter, when everyone is offered an in-home display, and all the installers are trained in communication skills to explain what is going on, what can be done with the display, what the smart meter is about and how customers can use it as a tool, if they wish to. This country is a bit special in that way, and we are seeing, on average, modest positive effects.

In the US, where smart metering is widespread, the emphasis has been very much on using it to try to control peak demand, and as an instrument to introduce time-of-use pricing and whack up the prices at peak times to keep peak demand down. They have special problems there, particularly in the hotter states, with air-conditioning in the summertime and very high peak loads, which is an expensive problem for them to manage. The earliest roll-out of smart meters was mostly, in my understanding, to overcome serious problems with fraud.

Dr Richard Fitton: I agree with Sarah, the UK is very strong on smart meters. If you speak to anyone in Europe, a lot of them are envious of the technical standards of the smart meters that are being rolled out. As we have heard from all the sessions, it is a very complicated issue and it is not getting any less complicated, certainly for the consumer.

Our research group'' angle is everything from the consumer side of the meter. We are looking at how to diagnose problems with buildings using the data and systems that are available. We are also developing appliances that will work with smart meters. A big piece of the puzzle that is missing from some of the discussions is the fact that the consumer should be able to engage with the smart meters. As it stands now, they cannot engage with the smart meters. We can log on to the energy supplier's portal and get a half-hourly reading. But a magic black box called the consumer access device is the gateway to the occupiers having access to their real-time data. This is not a box on the wall that tells them how much energy is costing. It is a consumer access device that streams real-time data to things such as smart appliances and smart heating systems for homes.

That is the whole aim, as far as I can see, of the smart and flexible grid that we constantly talk about. To attach one of these devices is exceptionally difficult and I have never had one successfully connected personally, nor have colleagues or associates. So a big piece of the puzzle is missing in using this data for something that is really smart, rather than just for billing. Billing is clearly important, but the use of the best-value data for the consumer appears to be the missing part of the puzzle. I think that would also push some buttons to help develop the interest in smart meters and get them into people's homes.

Q95 Dr Whitehead: We have been talking about the other end of the process—the extent to which it will be possible to use smart meter data in aggregate for all sorts of purposes in smartening the grid; developing different tariffs and different resiliencies in grids with knowledge of real-time flows and so on. What sort of penetration of the system do you think is necessary for that data to be usable? Is it a full roll-out, a partial roll-out, 60%, part of the country covered, not other parts? What would be the optimal pattern?

Dr Richard Fitton: I think it is the same with any technology. The greater the penetration geographically across different types of people and property and heating systems, and the greater the spread the better. It is a

very difficult question to answer. My thought has always been, when is the roll-out complete; when do we say it is complete? Is it at 90%, or 80%? It may be that 10% of people—I have just made that figure up—will not let you through the door. When is it complete; when do we rubber stamp it?

Dr Sarah Darby: Yes, I think there will always be a section of the population who do not stand to gain very much from having a smart meter; the demand is perhaps very low and there would not seem to them to be a great deal of point. Their impact on the system would also be very small, so I would say yes, we are probably talking in the region of 80%. You would have garnered pretty much all the benefit by then.

Q96 Dr Whitehead: Does the viability of the aggregate data degrade just marginally as the percentage point of distribution goes down? Alternatively, is there a point at which you say, "Actually, this information is useless" because the penetration is so patchy or incomplete that you cannot reliably use it for the purposes that we hope it can be used for in the future?

Dr Sarah Darby: I guess that would depend on what you wanted to use it for.

Q97 Dr Whitehead: One example would be predicting in real time what flows are going on in various parts of the grid, so you can manage the grid's capacity versus its possible strength in the future in an optimal way.

Dr Richard Fitton: I could not give an educated answer to that. I simply do not know the penetration level that would be needed, but I would say 80%.

Dr Sarah Darby: Who would account for a lot more than 80% of the actual consumption or the actual amount of electricity being fed in?

Dr Whitehead: That is what I do not know. That is why I am asking the question.

Q98 Clive Lewis: In terms of the versatility of the smart metering data that you touched on, Richard, it was quite sobering to hear you say that that has never worked for you. We can probably quite accurately talk to suppliers about the build and so on, but I am thinking of all the other things, such as the heating being attached to movement sensors so that it goes off when you leave the house and, by talking to your phone, switches back on when you are due to arrive back in 15 minutes. Google can do that already.

Obviously, the cheapest and greenest energy is the energy that we do not use, so that is fantastic on the demand side, which we do not focus on enough in this country. You are saying that that is not really working. I wonder whether this legislation is the place where this will happen. Is there anything in this legislation that you feel is sufficient to give you encouragement that that will happen in the future, or are there holes in it that mean that those data and that potential will never be realised?

Dr Richard Fitton: There is nothing in the Bill that would cover that element. There is guidance around the periphery of the Bill and the licensing Acts and things like that, but there is nothing specific.

Q99 Clive Lewis: Does it need it?

Dr Richard Fitton: The consumer needs a route to how they can access their real time data from the home area network. That needs a procedure to be put in place because that is the keystone.

Dr Sarah Darby: I wonder whether we are a little at cross-purposes here, because I am thinking of the in-home display as the way that the customer accesses that information. But I think you are talking about stuff talking to stuff.

Dr Richard Fitton: I am talking about stuff talking to stuff. The home area network—I will not do the thing with the cups—is provided in the smart meter itself that things can attach to. The consumer access device talks to that via a Zigbee principle and says, "Here is your data." You can stream it, save it, and pass it on to other appliances.

Q100 Clive Lewis: When we talk about something that is at the heart of the demand side of the fourth industrial revolution, I guess you would expect us to be planning some years ahead to be able to make use of emerging technologies. What you seem to be saying at the moment is that this Bill does not do that. It is quite limited in its purview.

Dr Richard Fitton: Technology developers I am working with now are trying to make that work. That is how savings can be brought about. It helps things like grid smoothing and demand-load shift.

Dr Sarah Darby: I would add that it is important to consider stuff talking to people through the display. When people ask for a smart meter, or when they are getting one, the bit they are really interested in—almost always—is the display. The single most powerful reason people have for wanting or appreciating a smart meter is that they get visibility of their energy use.

The knock-on effect from that is also very important in terms of the future energy outlook. For example, no amount of smart technology will insulate your walls for you. There are still a lot of unsmart things that need to be done to our building stock in this country, for example, that the smart revolution will not actually do.

On the other hand, if smart technology can be used to communicate to people to get them thinking more about what can be done, and if it can be combined with advice and guidance so that they have clearer ideas about what options are open to them—if there is support for the metering in that way—a lot can be done to take us forward. I want to emphasise that aspect of it as well, in terms of communication.

Dr Richard Fitton: We are carrying out that type of work with the International Energy Agency—taking in this data and processing it in such a way that building physics can be incorporated with the algorithm so that we can then say, "These buildings are likely to need some type of intervention to make them cheaper, more fuel efficient and more comfortable for the occupant."

Q101 Douglas Ross (Moray) (Con): Dr Darby, in the information you provided you said that it is important to conduct the remaining smart roll-out well rather than do so at speed, and then you gave three main reasons for that. I am not sure whether you were here for the evidence session this morning, but I raised

concerns about my own constituency in Moray in the north-east of Scotland, and other more remote and rural areas, where people want smart meters but the installation is not happening particularly quickly.

One of your main concerns about rolling out quickly is that customers will feel pressured into adopting smart meters; yet I have constituents who want smart meters but cannot get them. For example, a village hall, the Houldsworth Institute in Dallas, has had people out to try to get one installed, but there is no mobile phone reception—it is in a blackspot. How do you think your evidence relates to people who want to see the roll-out far quicker, but are hampered because the technologies do not allow it or we do not have enough installations happening in the more remote and rural areas compared with the more urban areas?

Dr Sarah Darby: That would be an argument for paying special attention to such areas and thinking how that could be addressed. It does seem to me that the strength of the programme so far is that it is voluntary, and that the early learning is being done by people who are already well-disposed to it and will perhaps put up with any kind of teething glitches that go on. They will adapt and then, if they are satisfied, will pass the word on to others so that others will want a smart meter too.

If we speed up, the amount of attention paid to the installation process will almost inevitably drop off. There will be pressure on installers just to go into a building, put the kit in and get out, and not to spend time doing the things that customers have said they appreciate about the roll-out so far: having someone who will explain stuff to them and show them how to use the equipment, and having that level of support to the installation. If we lose that through speeding up the whole process, the programme would suffer greatly in the long run.

Q102 Douglas Ross: The concern I am trying to get at is that constituents such as mine will eventually get frustrated with always being at the end of the queue. If we cannot accelerate the process at all and suppliers continue to go for doing mass numbers in more urban areas, we have a real risk that the communities that would benefit the most from these smart meters will always be at the end of the queue. If it takes so long to get to them, we might actually disenfranchise so many people.

Dr Sarah Darby: Yes, they might get turned off.

Q103 Douglas Ross: So you could accept that as being a reason in some cases to accelerate, if possible, without compromising the other elements?

Dr Sarah Darby: Yes—without compromising the programme as a whole.

Q104 Steve McCabe: Do you know what happens to all the old meters? How are they disposed of when we put in these new smart meters, and what happens to the smart meters when they come to the end of their life? Has BEIS issued any guidance on how those should be recycled? I guess I am wondering whether there is a landfill somewhere full of old smart meters or old non-smart meters.

Dr Sarah Darby: You would have to ask BEIS about that.

Dr Richard Fitton: I remember seeing in the trade press that some consideration is being made of recycling existing meters, but I do not know. Again, it is an excellent sustainability—

Q105 Steve McCabe: So you do not know what will happen to the old ones, or what will happen to smart meters when they come to the end of their lives?

Dr Richard Fitton: Or indeed to some of the smart meters being installed today. I have swapped suppliers and they have taken away new smart meters, four or five months after. I do not know; sorry.

Q106 Stephen Kerr: I was interested in your comment about consumer access devices, following up on your comment that you have never had one that connected to a smart appliance or device. Is that because the SMETS 1 meter does not have adequate functionality to do so? If so, does that mean that we have an estate of some 7 million SMETS 1 meters in this country that are not future-proofed to allow us to take full advantage of the potential of a smart grid/smart economy?

Dr Richard Fitton: I believe, as the Minister has mentioned, that SMETS 1 are to be upgraded to SMETS 2 starting at some point next year. There is no particular technological challenge in connecting consumer access devices to SMETS 1 meters, but you can sympathise with some people who might be waiting for the full SMETS 2 systems to be installed. That seems commercially obvious to me.

Q107 Stephen Kerr: Are you seeing evidence to suggest that the SMETS 2 meters will be easier?

Dr Richard Fitton: We have been told.

Q108 Stephen Kerr: Then that will be the case.

Dr Richard Fitton: Absolutely.

Q109 Stephen Kerr: To this point, is there any evidence that smart meters change consumer behaviour across the board, other than people looking at the visual display?

Dr Sarah Darby: There is evidence that people are making alterations in their everyday behaviour and that over time, from how the figures are going, they are thinking more about investing in energy efficiency. I say that because the evidence is that the energy-saving effect, compared with people who do not have smart meters, rises gently over time. You would think that people might be very keen at first to go around switching off all the lights and so on, but would then get a bit bored with it, and the effect would fall off, but that does not seem to happen. If you look at the large numbers of people we have data for over a long period of time—a few years—you see a gradual learning effect.

It is quite a small effect in aggregate. After the first year of roll-out, I think it was 1.5% or 2% for gas and electricity. The last I heard, which was May 2016, British Gas was talking 3% to 4% after a few years, on the basis of several hundred thousand customers. So there is a gradual learning effect. That is, of course, an average, and it will vary a lot between people. For some people, you may get quite a substantial effect; for some people, none at all.

Q110 Dr Whitehead: Briefly, on that particular issue, one thing that smart meters may well do—we have heard that they do—is enable you to use energy more effectively. To paraphrase Dr Fitton, although a smart meter might tell you very smartly, "This is exactly how the energy you are using goes out through the roof and windows of your house and through your walls," and that may well be useful information, it does not actually make your home any more efficient. Is there any evidence that smart meters can lead people to go that step further, or do we still need smarter meters that tell you, "Actually, your house is really inefficient; what you ought to do is make your house more efficient, and then your smart meter will work even better"?

Dr Sarah Darby: If you really want to see how heat is leaking from your home, you want thermography. When people are shown thermal imaging of their homes, it can have quite a dramatic effect, because you can absolutely see where it is leaking out. That is the most powerful way of doing it. A smart meter can just tell you, "This is what you are using now; this is what you used last week." You remember, "Oh, yes. Last week we had the whole football team round having hot showers," or something like that. You can link cause and effect to some extent. This is what you used, compared with several months ago. You can see seasonal effects and so on. You can work things out.

Ideally, you need to be able to put all that together with other sources of information. Another thing we find is that when people get their feedback from different sources, that has more effect than if they are getting it from just one. Ideally, you would see the smart meter information as part of a rich mix that people get gradually more familiar with and that they talk about with other people; they can find out what to do with that information and try to find ways of using it.

Q111 Giles Watling (Clacton) (Con): One concern you mentioned, Dr Darby, was too much of a rush to roll out the smart meters, because installation might be compromised. Secondly, and interestingly, you said that you feel people might be pressured into adopting smart meters and, therefore, not engage in the process; I think I have read that right. Do you have any evidence that that might be being addressed—that people are beginning to understand the benefits and the process involved?

Dr Sarah Darby: I have not heard of any serious push-back on this. I have heard one or two accounts anecdotally that people are feeling under a bit of pressure from their supplier that they really ought to be getting a smart meter now. One woman said to me she was holding out for as long as she could. She was not particularly against a smart meter but she was curious to see how long the supplier was going to keep pushing her.

Q112 Giles Watling: There seems to be some confusion out there, inasmuch as people are getting SMETS 1 and then they want SMETS 2, and they are not sure whether one will do the other. Are we getting that information out there to the people, who are the customers after all? Are we being effective enough?

Dr Sarah Darby: The picture is rather mixed. This is, after all, mostly in the hands of the energy retailers and they have different ways of going about it.

Q113 Giles Watling: So that is something we need to address, in your view.

Dr Sarah Darby: Yes, I would think so.

The Chair: Time is against us, so Mr Grant's will have to be the last question.

Q114 Bill Grant (Ayr, Carrick and Cumnock) (Con): I will take a quick virtual imaginary journey to November 2022 when we have maxed out on the installation of smart meters, everybody is happy and they are working. Notwithstanding the consumer benefits, what would be the benefits to the wider environmental community? What would be the environmental benefits in relation to carbon reduction from the installation of a full roll-out of these meters? Or is there no benefit whatever to the environment?

Dr Sarah Darby: Potentially, this is part of a very big transformation of our energy system. If we are relying heavily on renewable supply, particularly for electricity, we have to be able to match demand with supply in real time very effectively. The smart meters are part of making that possible. That means effectively that they are part of the transition to a renewables-based energy system with very carefully managed demand and supply together. The environmental benefits of that would be very considerable.

Q115 Bill Grant: So there will be a considerable environmental effect.

Dr Sarah Darby: Yes.

Q116 Bill Grant: We are all fond of our environment and the planet, and we need to keep them for generations to come, so that is a stepping stone on a very positive journey.

Dr Sarah Darby: Yes, I would think so.

Dr Richard Fitton: I would add one point. The smart meter is a tool as well and from that tool we can hang things. With it comes this whole idea of being able to attach more efficient things for your home, such as appliances and heating systems. Once it gets in the house, people can then start to do smart things with it. You have got to consider those savings as well as the generic smart meter savings.

The Chair: Mr Western: 20 seconds.

Q117 Matt Western: The confluence of "prosumer"—producer and consumer: do you think the Bill addresses that, or is there an opportunity to have gone a bit further with it, to change behaviour?

Dr Sarah Darby: The specification is already there to allow for prosumption, for people who are generating—

The Chair: Order. I am afraid I have no choice. That brings us to the end of the time allotted for the Committee to ask questions. I am sorry to cut you off in your prime. Perhaps, as the question has been brought in, you will see each other after the Committee. I thank you both for being our witnesses this afternoon and, on behalf of the Committee, for giving us the benefit of your wisdom. Line-by-line consideration of the Bill will begin at 11.30 am on Thursday in Committee Room 12.

3.45 pm

The Chair adjourned the Committee without Question put (Standing Order No. 88).

Adjourned till Thursday 23 November at half-past Eleven o'clock.

Written evidence reported to the House

SMB 01 Anonymous
SMB 02 Mr J R Harwood
SMB 03 Smart Energy GB
SMB 04 Energy Networks Association
SMB 05 Energy UK

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

SMART METERS BILL

Third Sitting

Thursday 23 November 2017

(Morning)

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No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Monday 27 November 2017

The Committee consisted of the following Members:

Chairs: †Mike Gapes, Mrs Cheryl Gillan

† Carden, Dan *(Liverpool, Walton)* (Lab)
† Debbonaire, Thangam *(Bristol West)* (Lab)
† Freer, Mike *(Finchley and Golders Green)* (Con)
Gibson, Patricia *(North Ayrshire and Arran)* (SNP)
† Grant, Bill *(Ayr, Carrick and Cumnock)* (Con)
† Harrington, Richard *(Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy)*
† Kerr, Stephen *(Stirling)* (Con)
† Lewis, Clive *(Norwich South)* (Lab)
† McCabe, Steve *(Birmingham, Selly Oak)* (Lab)
† Morris, Grahame *(Easington)* (Lab)
† Pawsey, Mark *(Rugby)* (Con)
† Quince, Will *(Colchester)* (Con)
Ross, Douglas *(Moray)* (Con)
Smith, Laura *(Crewe and Nantwich)* (Lab)
† Tolhurst, Kelly *(Rochester and Strood)* (Con)
† Warman, Matt *(Boston and Skegness)* (Con)
† Watling, Giles *(Clacton)* (Con)
Western, Matt *(Warwick and Leamington)* (Lab)
† Whitehead, Dr Alan *(Southampton, Test)* (Lab)

Jyoti Chandola, Clementine Brown, *Committee Clerks*

† attended the Committee

Public Bill Committee

Thursday 23 November 2017

(Morning)

[Mike Gapes *in the Chair*]

Smart Meters Bill

11.30 am

The Chair: Good morning, everyone. Before we begin line-by-line consideration I have a few preliminary announcements.

Please switch electronic devices to silent. Tea and coffee are not allowed during sittings, but you may if you wish remove your jackets—*[Interruption.]* I am delighted that the Whip is first off.

We will now begin our line-by-line consideration. The selection list for today is available in the room and on the Bill web page. It shows how the selected amendments have been grouped together for debate. Grouped amendments are generally on the same or a similar issue.

Amendment 20 has been selected even though it is starred. That is because it was tabled before the deadline but withdrawn and re-tabled due to an administrative error.

A Member who has put their name to the leading amendment in a group is called first. Other Members are then free to catch my eye to speak on all or any of the amendments in that group. A Member may speak more than once in a single debate. At the end of the debate on a group of amendments I shall call the Member who moved the leading amendment again. Before they sit down, they will need to indicate whether they wish to withdraw the amendment or to seek a decision.

If any Member wishes to press any other amendment or new clause in a group to a vote, they need to let me know. I shall work on the assumption that the Minister wishes the Committee to reach a decision on all Government amendments when we reach them.

Please note that decisions on amendments take place not in the order that they are debated, but in the order that they appear on the amendment paper. In other words, debate occurs according to the selection and grouping list, and decisions are taken when we come to the clause that the amendment affects. Decisions on adding new clauses or schedules are taken towards the end of proceedings but may be discussed earlier if grouped with other amendments.

I shall use my discretion to decide whether to allow a separate stand part debate on individual clauses and schedules following the debates on relevant amendments.

I hope that explanation is helpful.

Clause 1

Smart meters: extension of time for exercise of powers

Steve McCabe (Birmingham, Selly Oak) (Lab): I beg to move amendment 1, in clause 1, page 1, line 4, leave out '1 November 2023' and insert '31 December 2020'.

This amendment would reduce the proposed extension of powers to align them with the planned completion of the smart meter rollout.

The Chair: With this it will be convenient to discuss the following:

Amendment 2, in clause 1, page 1, line 9, leave out '1 November 2023' and insert '31 December 2020'.

This amendment would reduce the proposed extension of powers to align them with the planned completion of the smart meter rollout.

Amendment 3, in clause 1, page 1, line 12, leave out '1 November 2023' and insert '31 December 2020'.

This amendment would reduce the proposed extension of powers to align them with the planned completion of the smart meter rollout.

Amendment 4, in clause 1, page 1, line 16, leave out '1 November 2023' and insert '31 December 2020'.

This amendment would reduce the proposed extension of powers to align them with the planned completion of the smart meter rollout.

Amendment 5, in clause 1, page 1, line 19, leave out '1 November 2023' and insert '31 December 2020'.

This amendment would reduce the proposed extension of powers to align them with the planned completion of the smart meter rollout.

Steve McCabe: Good morning. It is a pleasure to serve under your chairmanship, Mr Gapes. I should probably confess to you that this morning in the railway station, as I discovered that the 8.30 and 8.50 trains had both been cancelled, I wondered about phoning you to ask whether I could be the first Back Bencher to make it into *Hansard* by moving the amendment on Skype. I was intrigued to know what your ruling on that might be. However, as I am sure the Minister and his colleagues are relieved to hear, at the 11th hour a train arrived. It was an interesting journey but I made it here.

The amendment seeks to reduce the period for which the extension of the licence would apply. Amendments 2 to 5 are consequential. To be clear, I am in favour of smart metering. I believe that it is a technological advance with the potential to save energy use and to reduce customer bills, and it may have wider, long-term and beneficial applications. I assure the Minister that these are not wrecking amendments. Rather, the purpose is to probe, to uncover the explanation for what has gone so wrong with the roll-out so far. What assurances can he give the Committee that an extension of the deadline will result in a satisfactory outcome, not simply allow an extension of the delays and spiralling costs, which have been a feature of the programme to date?

It is the Government's wish that by 2020 more than 50 million new energy smart meters will have been rolled out to 30 million homes and smaller non-domestic sites. The programme is currently in the main roll-out stage, which is due to end in 2020. However, as I said, it has faced persistent delays. As a result, SMETS 1, the early version of meters that we heard about in the oral evidence sessions, is still being rolled out, and that is scheduled to continue until July 2018.

As I have indicted, there are real benefits from the programme. Smart meters coupled with a functioning in-home display—an IHD, as it is referred to in most of the documentation—can make energy usage and cost

visible to customers in near real-time, enabling consumers to change their patterns of consumption. That in turn can help with demand management for the energy supply across the country.

The scale of what remains of the smart meter roll-out programme is immense. Only 8 million meters have been installed so far out of a target of approximately 53 million. That is about 15% coverage, with only three years left of the main roll-out stage.

Stephen Kerr (Stirling) (Con): I am not clear about what would be achieved by a move of date. If, as the hon. Gentleman says, and I agree with him, it is a stiff target to install the remaining balance of meters by 2020, why change the date when the purpose of the Bill is to allow the Secretary of State that flexibility?

Steve McCabe: As I said at the outset, the purpose of the amendment is to probe the Minister to explain what has happened so far and why he is so confident that in the future he will be able to stick to deadlines that have not been kept to so far. We could simply settle on the date of 2023 as currently specified in the Bill, but it would be remiss of us both as constituency Members of Parliament and legislators to let that go through without being clear about what we have voted for and what the likely implications are. Hence I suggest we look at the date.

Grahame Morris (Easington) (Lab): These are important questions. I have received representations from a number of organisations, including National Energy Action, which points out that part of the rationale behind the original timetable was a cost-benefit analysis. It is concerned that if we were to delay roll-out as suggested, and as the Minister is advocating, the benefits to be enjoyed by consumers—particularly hard-pressed consumers on low incomes—would be delayed. Whatever the arguments on supply, there is a cost to consumers. We need to consider that carefully and, as some of the witnesses argued, whether we need another cost-benefit analysis, or whether that would delay the process even further.

Steve McCabe: There is a new clause to be considered later that would provide for a fresh cost-benefit analysis, partly on the basis that with the most recent one there was a significant downward revision of the benefits identified. Clearly, to let the programme trundle on, without any idea of the costs and benefits, might mean that we are doing constituents and customers a severe disservice.

As I was saying, the roll-out has reached the stage of about 15% coverage, with three years to go. The Government are on record as saying, only last month, that nearly 350,000 meters are being installed each month; but to reach 100% coverage by 2020 more than 40,000 meters a day need to be installed. That is a 70% increase in the installation rate.

Stephen Kerr: I am a little confused; perhaps the hon. Gentleman can help me. Is the objective to offer smart meters to every one of the 53 million establishments by 2020, or to complete installations? Currently an offer is being made, and there is no mandate on consumers to install a smart meter. I am not sure that it is possible to have a target of 100% completion by 2020 on the basis of an offer to consumers.

Steve McCabe: The Minister may want to help the Committee with that, but my understanding is that he has an installation target. Clearly there will be people who refuse to accept smart meters, and that will inevitably affect any overall figure; but, as far as I understand the matter, the Government have an installation target. My point is that if they need to achieve a 70% increase in the daily rate, that does not seem to be likely or credible; it is not on the cards. However, the Government are adamant that the 2020 target is achievable—a sentiment that the Committee will remember was echoed by some of the witnesses we heard from on Tuesday. I think that we need to hear from the Minister how he will achieve that.

A recently circulated myth-busting document from the Department for Business, Energy and Industrial Strategy says it is a myth that the Bill

"is just a means of extending the roll-out until 2023."

It states:

"Reality: Energy suppliers remain legally obliged to complete the roll-out by the end of 2020."

If BEIS is right in its myth-busting, why does the Secretary of State need such an extension of powers to develop, amend and oversee regulations relating to smart meters? If the energy suppliers are legally obliged to complete by 2020 and it is a myth to suggest that the Bill is simply about creating an extension, and BEIS is confident about that, why are we here discussing an extension to 2023?

Dr Alan Whitehead (Southampton, Test) (Lab): Will my hon. Friend consider myth-busting the myth-busting? It is not the case that all suppliers are legally required to install smart meters by 2020: it is those suppliers who are under an obligation, because they have more than 250,000 customers, to pay and take part in green and social tariffs. Suppliers with fewer than 250,000 customers have a target to supply by 2020, but are not legally obliged to do so. That may be of use to my hon. Friend in considering the target itself. The fact that some companies do not have the same obligation may be cause for further thought about whether targets will be reached.

11.45 am

Steve McCabe: I am extremely grateful to my hon. Friend for that observation. Unfortunately, I have relied on the wording of the Department for Business, Energy and Industrial Strategy and its myth-busting document. However, it is very helpful to hear what my hon. Friend has just said and it would be extremely helpful if the Minister took that point on board when he seeks to enlighten the Committee on how we will proceed.

What will happen to energy suppliers if they fail to meet the roll-out targets by the end of 2020? So far, the Government have indicated that the reasons for the extension are

"to remove delivery barriers, protect consumers, and help households and small businesses continue to get the most from their smart meters once installed."

We heard on Tuesday that some customers cannot possibly be getting

"the most from their smart meters",

because once they are installed and the customer switches provider, they cease to be a functioning smart meter. So I can see why the Minister is keen to address that problem.

[Steve McCabe]

Perhaps the Minister would be kind enough to explain to the Committee exactly how an extension to 2023 helps achieve each of those stated aims. If the target for installation is going to be met by 2020, as BEIS asserts, there will be no "delivery barriers" to remove. Also, it is unclear what protection the Government think customers would need in relation to the roll-out, unless it is specifically about this question of the problem that arises when people try to switch providers.

Dan Carden (Liverpool, Walton) (Lab): Surely this delay in the roll-out, potentially to 2023, would also have a significant effect on the Government's cost analysis. We have heard about the astronomical sums of money that are involved in the roll-out. Has my hon. Friend had any indication of what a delay would mean for the cost of this scheme in the future?

Steve McCabe: I hope that before the Committee concludes its business, all of us here will have a much better understanding of exactly what this programme currently costs and what it is likely to cost by the time of completion. I was quite taken aback at the evidence session on Tuesday when one of the witnesses told us that the cost to the customer had already gone up in 12 months from £5 to £13. If we multiply that increase over the period of the extension that is now under discussion, we can see that, far from being a measure designed to cut the energy costs for consumers, the Bill could well load cost after cost on poor people who are already struggling to pay their energy bills.

That is one of the reasons why, in discussing the Bill and deciding whether to give the Minister this extension and these approvals, we need to be absolutely clear what we are committing to. It is on us in this Committee to determine whether we are genuinely standing up for customers, or whether we are considering the implementation of a programme that is primarily designed to provide benefits to suppliers, in the sense that the suppliers are meant to make the savings and then pass them on to the customers. If we were to end up in a situation whereby the benefits to the customer are not realised and the costs to the customer rise exponentially, that would be a disaster and a total dereliction of our responsibilities.

Dan Carden: Yesterday, we sat through the Budget and heard very specific sums of money being put here, there and everywhere. Is it my hon. Friend's understanding that the budget for the roll-out of smart meters is unlimited?

Steve McCabe: Again, I defer to the Minister; I genuinely look forward to hearing his explanation of this situation. It is my fear that, although the budget may not be unlimited, the costs are loaded on the consumer and the costs to the consumer could be unlimited. We could find that, instead of protecting people, we are loading them with costs into the foreseeable future.

The Chair: Order. There is potential to go into a large number of issues on this amendment. I would be grateful if hon. Members, as far as possible, focused on the terms of the amendment we are debating and others in this group. We will have an opportunity later to discuss some of the wider issues.

Steve McCabe: I am grateful for that guidance, Mr Gapes. Of course, the amendments are about restricting the date.

Interestingly, not one expert witness we heard from gave a clear reason why it is essential to agree a date of 1 November 2023. What I really want to know is, what is so important about that date, given that 2020 is the key year for the project? Is it arbitrary or pragmatic? It just happens to be five years in the future, and it might reasonably be expected that a great many of those currently connected with the delivery of this programme will have moved on to other things after that time—they might not be quite as culpable or responsible as they would be if the date were a bit closer. Can the Minister offer any additional insight about why he chose that specific time?

I am pursuing this matter because it is my contention that the project is littered with set-backs. I am conscious that the Minister inherited this brief recently, and I certainly do not hold him responsible for what has happened to date. None the less, the main national roll-out was initially intended to begin in 2014 and be complete by 2019. In 2013, the then Secretary of State, the right hon. Member for Kingston and Surbiton (Sir Edward Davey), announced that he was putting the start date back to 2015 and the completion date back to 2020. He said:

> "The consistent message was that more time was needed if the mass roll-out was to get off to the best possible start and ensure a quality experience for consumers."

Well, he gave them that extra time, and here we are with a Bill that says, "Give us more time again." That is the situation we have arrived at.

It is probably fair to say that the industry, especially the suppliers but also the middle men—the asset providers, to whom I am not quite so well disposed—wants certainty, and I am not at all convinced that the 2023 date provides that. It simply extends the completion date. Surely the Minister can see that it makes no sense to insist on a target that nobody believes in and simultaneously create a provision in the Bill that allows it to be extended beyond 2020. It is tantamount to saying, "Don't worry—we are not really serious."

Grahame Morris: The arguments for extending the roll-out period are contentious. I refer my hon. Friend and the Committee to the evidence that Mr Derek Lickorish from Secure Meters gave when my hon. Friend the Member for Liverpool, Walton asked that question. Mr Lickorish identified two impediments: one technical and one commercial. He argued that the 2020 date was achievable, and said:

> "I think that Ofgem ought to be able to bring the people round the table who can solve these"

commercial and technical

> "issues. I do not think they are particularly visible at the moment."—[*Official Report, Smart Meters Public Bill Committee,* 21 November 2017; c. 37, Q68.]

So there are mixed opinions about the feasibility of the benefits of extending the period. The Committee needs to be convinced of the benefits of allowing a longer roll-out period, because the experts who presented evidence to the Committee were not absolutely clear and of one mind.

Steve McCabe: I am grateful for that. That is exactly the point I have been endeavouring to establish. I cannot see how the Minister can reconcile an insistence by his

officials, which he is forced to mouth on occasions, that the roll-out will complete by 2020 and at the very same time take powers to extend it to 2023. The point questions exactly what is going on.

I can think of various projects that Governments have insisted would complete on time and within cost over the years—I will not go into them in detail—but of all Governments this one is littered with projects of this kind where the plug is ultimately pulled, particularly on IT projects, and usually after enormous cost to the taxpayer. The main difference here is that the enormous cost, as I said earlier, is to the consumer. We are putting the cost directly on to the consumer.

My fear is that unless the Minister—I am hoping genuinely that he will be able to do this today—can offer a convincing explanation for why he has selected 2023 as the period of his extension, unless he can give an assurance that we have not yet heard of what has changed to make this completion target very likely now, and unless he can offer a convincing explanation for what has gone on before, I do not see how in all conscience we can be confident that we are making the right decision.

Grahame Morris: To clarify the point about costs—

The Chair: Order. Just a moment. I do not want to stray from the terms of the amendment. If the hon. Gentleman wishes to intervene, can he keep specifically to the group of amendments?

Grahame Morris: Yes, Mr Gapes. On the amendments and the arguments for changing the date and extending the roll-out period, part of the argument being put by my hon. Friend relates to the cost consequences. I simply wanted to identify what those costs were, as presented to the Committee. Is that in order?

The Chair: That is for later. When we discuss other matters it will be in order. I would rather not have a general debate on the amendment. We can have a debate on other clauses as we consider the Bill, but I do not wish us to have a general debate at every point. If interventions can focus on the amendments before us at this time, it will be helpful.

Steve McCabe: Thank you, Mr Gapes. As I indicated at the outset, I am not opposed to the smart meter programme. I do not regard these amendments as wrecking amendments. I hope the Minister will accept that they are deliberately probing because they seek to establish, as I was saying, why we should have confidence in the new date and what the justification for the time period is, as well as how we can understand what has happened and how we can be confident that things have been put right so that the process will not continue to repeat itself.

One of the consequences of such repetition would be escalating costs. I suspect that that is the point that my hon. Friend the Member for Easington was referring to. *[Interruption.]* My hon. Friend has just passed me the evidence from Mr Lickorish, which points out his extreme concern about the way these costs will escalate. However, I think it will be better if I stay with the date.

The Chair: Yes, it would.

12 noon

Steve McCabe: I simply say that my fear is that we could end up agreeing a timescale that does not have safeguards or an obvious justification, which in itself is an opportunity for further delay and is perhaps a recipe for failure. I ask the Minister: would it not be sensible, at this point in the roll-out of the programme, to send a clear message to the industry, consumers and everyone that an extension until 2023 is needed and to make it absolutely crystal clear why that date has been chosen and what will happen in that period—or whatever period BEIS picks? It has been interested in other dates in the past but now it thinks it should be 2023. Would it not be sensible to send a clear message to the industry, so that we can ensure that the benefits of the programme that the Minister intends are actually realised?

If it is not possible in all conscience to do that and to convince the Committee that we are on track for that outcome, would it not be sensible to revert to the 2020 target and to actually develop a sense of common purpose that says to all those people engaged in the programme, "You said you could do this. We are telling you that 2020 is the delivery target. We are absolutely clear that that is where we are heading"? Would it not be sensible to stop the backsliding and to say that what we actually want is to deliver what we are telling the public we are capable of delivering? We simply cannot have it both ways; we cannot be emphatic on both points. There is either an achievable deadline of 2020, and all the statements from the Department are believable, or that deadline is unachievable and the Minister needs to set a new deadline, explain it and justify it and convince us that that one is deliverable.

Dr Whitehead: My understanding of my role, with regards to the amendments, is that I am not summing up on behalf of the Opposition but speaking in support of the amendment put very ably by my hon. Friend the Member for Birmingham, Selly Oak just a moment ago. Before I say anything else, I need to emphasise, as my hon. Friend did, what the Opposition think about the Bill as a whole and what we think about smart meters and their roll-out.

We need to be clear from the start that we are certainly not opposed to the Bill overall and we are certainly not opposed to smart meters. We think that smart meters are not only a desirable but a necessary part of the process of smartening up our energy systems as a whole, and that they will have considerable benefits for both consumers and the energy system as a whole when they are rolled out.

We are also anxious to see that that roll-out proceeds in a timely fashion and that we have a substantial coverage of smart meters at the earliest possible stage, so that those benefits can start to be realised. Indeed, as we heard in oral evidence, there are quite a few issues relating to how many smart meters need to be installed in order for those benefits to start rolling out. Getting those numbers in is an important part of the process of realising benefits for the future.

The amendments we are talking about, and indeed clause 1, are about the process of changing the date by which time licensable activities will have ceased from 2020 to 2023. Whether or not it was a wholly wise idea, the 2004 and 2008 Energy Acts and subsequent regulations

[Dr Whitehead]

specified a date for those licensable activities to end, so after 2018 the Government will have no control over what goes on. Everybody knows that in 2018 we will still be at a relatively early stage of the roll-out. It is impossible to conceive that it would be wise to continue with the original timetable, so we support the idea of specifying a more satisfactory date in the statute book.

The date specified in the Bill is 2023, but as my hon. Friend the Member for Birmingham, Selly Oak pointed out, that does not appear to coincide with the Government's publicly stated ambition for the end of the roll-out. I say that with caution, because their statements about the roll-out have changed over time, but they have always revolved around the idea of ending it in 2020. There has been a lot of talk from the Government about 53 million smart meters being installed in homes by then. Indeed, the "frequently asked questions" page of the Smart Energy GB website states:

"By the end of 2020, around 53 million smart meters will be fitted in over 30 million premises (households and businesses) across Wales, Scotland and England."

However, the Government have changed their position; they are now saying that by the end of 2020, 53 million customers

"will have been offered a smart meter"—

a very different proposition. We could interpret that as 53 million people being offered a smart meter by 2020, but only 10 million having them installed, although I assume that that is not what the Government mean. That statement may be meaningless or meaningful, depending on what happens before the end of 2020 and on a variety of issues that will appear along the road, many of which the Committee will examine in its consideration of the Bill.

Stephen Kerr: Does the hon. Gentleman agree that if the word "offering" really suggests something voluntary on the part of the consumer, any targets set beyond that level are fairly redundant?

Dr Whitehead: Not entirely. That is one interpretation of the word "offering". If we adopt that theoretically interesting but practically difficult interpretation, what are we doing here, worrying about the roll-out? Provided that we can ensure that the chosen vehicles for the roll-out—the energy supply companies—can at some stage up to the end of 2020 tick a box showing that they have contacted Mrs Miggins of Acacia Avenue and Mr Bloggins of somewhere else, and asked them "Do you want a smart meter: yes or no?" and those people answered, "Hmm, I don't know," that is the end of it. Presumably we could end up at the end of 2020 with 20% coverage and a small number of meters rolled out.

Grahame Morris: I am following my hon. Friend's arguments about critical mass and the number of people participating. Does he have a view about why Northern Ireland is not in the scope of the Bill? With regard to Scotland, the hon. Member for Stirling pointed out that it was because of problems with internet coverage, and so on. Is there a similar issue with Northern Ireland and is that relevant to helping to achieve critical mass in the number of people who apply?

Dr Whitehead: I can only surmise that because there is an all-Ireland energy network system, which has different protocols from the UK system attached to it, there may be different circumstances for smart meter roll-out in Northern Ireland, so that what we are considering does not apply. Obviously it is proper for it to apply to the whole of the rest of the UK—Scotland as well as England and Wales—because energy is a reserved matter.

To return to the question of what it means for everyone to be offered a smart meter, I hope that the Minister will be able to clarify matters this morning, but we surely cannot mean that the whole obligation for the roll-out will be discharged by doors being knocked on and someone saying something. From the outset, we cannot mean that, because of the whole twofold purpose of smart meter roll-out. Yes, the smart meter goes into the home, but additionally the data that comes from the installation has, to a considerable extent, a life of its own. In aggregate it drives, to a substantial degree, the future energy system, in terms of how smart the system becomes and the use of the aggregate data to inform decisions about grid strengthening, local network arrangements and all sorts of things to smarten up the whole system—a system that smart meters are only a part of.

If the smart meter installation programme is pursued on the basis of just making a desultory offer, the result will be way below the critical mass necessary for the overall aggregate data to work properly and lead to decent decisions. At that point £11 billion or some such amount would have been wasted on nothing much.

12.15 pm

Mark Pawsey (Rugby) (Con): Is the hon. Gentleman making the case, then, that consumers should have no choice in the matter, and that the installation of a smart meter in everyone's home should be obligatory?

Dr Whitehead: No, I am not making that case, and I am deliberately not making it, because, as has been emphasised in the evidence sessions and on a number of other occasions, the smart meter programme is voluntary. People do not have to have a smart meter in their home if they do not want one. By the way, in the future that will create some difficulties and expenses for energy supply companies inasmuch as they may have to run a dumb meter inspection programme, as it were, alongside a different meter management programme for smart meters. Nevertheless, that is the position that all of us have taken from the beginning. The smart meter programme is not compulsory.

I am reminded of a visit I undertook some while ago with the then Energy and Climate Change Committee, where we talked about smart meter installation in the US. In some states, they had sheriffs and marshals on hand to ensure the installation of smart meters in particular people's homes.

The Chair: Order. That is very interesting, and it is enlightening in many respects, but I will be minded not to permit a clause stand part debate if we spend so much time discussing this amendment and the clause generally. It is very interesting, but I hope we can focus a little more narrowly in order to have a wider clause stand part debate later.

Dr Whitehead: Thank you, Mr Gapes. I am happy to follow your guidance. In my defence I can only say that I think I was led by an intervention into an interesting anecdote about what happens in the United States as far as meter installation is concerned. I will endeavour not to go any further on that.

We have a smart meter installation programme that is voluntary and, at the same time, we need a proportion—not 100% but quite a lot—of smart meters installed in order to make the programme work by having worthwhile aggregated data, so we clearly need to put a lot of effort into ensuring that the benefits of the programme are explained to the public. The evidence suggests that the public overwhelmingly like smart meters when they are introduced and that they want to have them in their homes. We therefore need to make a lot of effort over the period to ensure that the two ends—the voluntary nature of the programme and the need for substantial roll-out—can be reconciled. That will constitute much of our debate over the next few sittings. What is it that we need to be doing and should be done, but perhaps has not been done to ensure that the roll-out programme gets its output properly organised and smart meters installed?

The first question is about what we mean by an offer for everyone to have a smart meter. We have gone over that for a little while, and I am sure the Minister will have something to say on that. We then need to consider what we mean by the 2023 date in the Bill. I have four possible explanations as to the thinking behind that date.

The first is that we may not actually meet the roll-out date of the end of 2020, so we may need Government control to continue up to the end of 2023. Let us remember that this is about Government control of licensing arrangements for the whole roll-out. We may need that control to continue to deal with the eventuality that the roll-out date is changed. We may, at some future date, say that the new target is 2021, 2022 or whatever, and that we still need that control in place. We do not want to be here in 2023—I probably will not be here, but other hon. Members may be—going through this whole thing all over again and saying that we would like to have that control extended to whatever date.

The second is to do with the remedial action that may need to be taken if smart meters are just offered up to 2020 and the offer proves to be just that. Conceivably, given what the Government have said is their aim for the roll-out, we may reach the target date for their offer to be made—the end of 2020—and it may turn out that it is not really a roll-out at all and that we need to do various other things. Perhaps the 2023 date is there so that we can consider what to do in the eventuality that the offer turns out to be not very good at all.

There is also the question of what is happening with the specification of smart meters. We will look further at that, but it is pertinent to the roll-out date. As we heard in evidence, the Data Communications Company is supposed to control everything as far as smart meters are concerned. It will receive and organise data, it will communicate between the centre, the smart meters and the many networks, and it may well be responsible for further patching networks to ensure that wide area networks work. All that will be done through the DCC. It was always necessary for the DCC to start its roll-out to enable smart meters that have been installed and those that will be installed to connect with it and therefore go live at the earliest possible date. However, the DCC systematically failed to go live when it should have done. It repeatedly announced delays in going live. It eventually went live in autumn last year, under circumstances in which most of the industry raised substantial eyebrows.

Grahame Morris: We are dealing specifically with dates and with whether we have a justification for extending the roll-out period by three years. As my hon. Friend indicated, we are talking about huge sums of money. That may not be public money from the Treasury, but the consumer will certainly bear the scheme's cost, which is of the order of £12 billion. It is relevant that the DCC, which is the company responsible for delivery, and the framework and arrangements that sit around it—the Minister seeks to amend some of the terms of those, particularly the dates involved—are fit for purpose. Is the DCC a stand-alone company or a subsidiary of a larger group or company?

Dr Whitehead: My hon. Friend asks two questions, one of which I fear is a little outside the scope of the Bill—

The Chair *indicated assent.*

Dr Whitehead—as you indicate, Mr Gapes. I would very much like to expatiate on what is happening with the costs of smart meters, but I think I would not be able to continue down that path very long before being guided kindly away from it. There is certainly an issue about the extent to which costs are transparent and manageable—and stand-alone or controlled by an outside source. The DCC is not a stand-alone company. It was set up in order to run all these things, and was then effectively auctioned out to a company that could run it, and the successful bidder was Capita plc. As far as running the systems is concerned, DCC is effectively a subsidiary of Capita plc. Again, that may be an issue that we want to return to later.

The Chair: But not now. Any interventions should be on the specific issues in the amendment, not on Capita or anything related to it.

Dr Whitehead: Indeed, Mr Gapes, and I would not want to go down that path either.

Grahame Morris: I am certainly not going to challenge your patience, Mr Gapes—

The Chair: No, you are not.

Grahame Morris: This specifically relates to the date.

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Richard Harrington): The hon. Gentleman is past the point of no return.

Grahame Morris: That is certainly not my intention, Minister. My point relates to the amendment, the justification for extending the date by an additional

[Grahame Morris]

three years and whether the delivery vehicle is fit for purpose. Was my hon. Friend surprised, as I was, when the witnesses told us that only 250 units had gone live to date? Does that imply that the company is fit for purpose?

Dr Whitehead: I thank my hon. Friend for that intervention, which is absolutely bang in scope.

The Chair: Yes.

Grahame Morris: I managed to hit the target!

The Chair: For once.

Dr Whitehead: As my hon. Friend points out, and as I was suggesting before I was slightly diverted down a different route, DCC went live last autumn, but in the going live report, there were about eight pages of workarounds—things it had not sorted out yet. It only went live in part of the country, and was fully live in all parts of the country after autumn 2016. If it had not gone live at that date, the company would have suffered considerable penalties, so that was as late as it could be within the window of when it could go live without going into default. That, among other things, has caused considerable difficulties with SMETS 2 meters replacing SMETS 1 meters as the main kind of meter deployed up to the end of the roll-out in 2020. The SMETS 2 meters have a marginally different specification from the SMETS 1 meters and are allegedly much better at interoperability and intercommunication—

The Chair: I remind the hon. Gentleman that amendment 12 on that issue is to be debated after this one.

Dr Whitehead: Indeed. I will want to say one or two things on that amendment.

As we heard in evidence, only 250 SMETS 2 meters are fully operational, and we are supposed to have 39 million SMETS 2 meters up on walls by the end of 2020. That does not strike me as a terribly good start. The years are concertinaing into each other and we are running up to 2020.

12.30 pm

That relates directly to my third thought about why the 2023 date may be required. There could be such concern in Government about the fact that SMETS 2 meters are not appearing in the way they should that an extension is needed to accommodate the roll-out problem. That is to say that there may well be a hiatus when the SMETS 1 meter installation comes to an end and the SMETS 2 meters, for various reasons that we may go into in greater depth, are not yet fully available, and there may well be a problem of empty vans going around with nothing to install for a period.

Steve McCabe: Is the scenario that my hon. Friend depicts not the reason why the Minister has to explain fully the purposes of the timescale he has selected? That is exactly what some of us fear.

Dr Whitehead: Indeed. I hope the Minister will say something reassuring about that, and I am sure he is fully ready to do so.

The final important issue to do with the date is the number of appointments that energy suppliers are making—due to expressions of interest or otherwise—to put a smart meter up on a wall. We heard in evidence from Smart Energy GB about what it calls a pan-supplier customer funnel. That is a fancy way of saying that there is an enormous difference between people who say they would like a smart meter and people who actually get a smart meter at any stage of the installation proceedings. The number of installation appointments booked by energy companies looks very different from the position at the point of interest being expressed and people saying, "I would like a smart meter in my home. When are you coming to install it?" It is not a question of whether people want a smart meter, but whether they get the smart meter on the wall after they have said they want one. That appears to be a continuing problem in the roll-out.

Indeed, if hon. Members look at page 19 of the cost-benefit analysis from the end of 2016, they will see how considerations are changing with regard to the installation profile of smart meters up to the end of 2020. We may need another cost-benefit analysis in the not-too-distant future. As new cost-benefit analyses emerge, and as more information on the ground comes to light, the profile changes. I do not wish to repeat the theory of the four cups on the table from our evidence session, but hon. Members can see from a graph in the cost-benefit analysis the change between what the 2014 impact assessment thought the profile of the roll-out would be and the profile in the cost-benefit analysis of 2016: the mountain gets steeper and steeper as we come to the end of 2018 and the beginning of 2019.

It is suggested that a roll-out of some 15 million a year will be necessary in 2019 to get the programme on track in the way we all want and hope. A number of people think that that roll-out profile—a roll-out by the end of 2020—verges on the improbable. That is the fourth—and last, you will be pleased to hear, Mr Gapes—reason that I put forward for why 2023 has been decided on. The question is how that reflects on the roll-out, the communications, the offer and the ability of the whole system to work properly as far as future energy systems are concerned.

As the Minister is itching to tell us which one of the four is the actual reason—or perhaps it is all four or something else; I do not know—I will give him the opportunity to do that, but I hope that we can start the Bill with a very clear idea of what we are talking about as regards the 2023 date, because that will inform the rest of our discussions.

Richard Harrington: The shadow Minister took my "itch" comment correctly. I was, as Mr Speaker would call it, mumbling from a sedentary position.

Mr Gapes, I understand fully your rulings on scope. There are points from hon. Members on both sides of the Committee, and particularly Opposition Members, that I would like to speak about, but the issues raised are not within the Bill. If they would like to meet me separately, either formally or informally over a cup of tea, I would be very happy to do that, because I am

absolutely obsessed with smart meters, and that is my job; the hon. Member for Birmingham, Selly Oak, who spoke so eloquently, and I have met to discuss the subject. I took on this project quite recently, and I am determined to make a success of it, as are the officials. In my admittedly short and less than illustrious ministerial career, I have never come across people with such enthusiasm and energy for the project. We want to get it right, and I accept fully hon. Members' statements that the amendments are not designed to wreck the Bill. The expression used is "probing". We have heard very genuine comments and questions, and I will do my best to answer them.

I was going to make a longer speech. I thought that in the first bit of it, it would be better to put on record what the whole Bill and smart meter programme is about, but in the spirit of your ruling that Members' contributions have been outside the scope of the Bill, Mr Gapes, I think I would be pushing it, but I would have liked to have done that; I would like to put that on record, anyway.

The Chair: Try, and see where you get to.

Richard Harrington: Well, I would like to make it very clear—this is absolutely within the scope of the Bill and the amendments—that the purpose of the Bill and clause 1 is not to give the Government more time because they or the companies are behind on targets. It really is not; it is to extend the existing powers of the Secretary of State to do quite a lot of things. I will not say this again unless I am asked, but it is not to give the Government more time. Hon. Members' comments have often probed that point, so I thought I should make that absolutely clear, and then happily go through the measure.

I have seen in my business life quite a lot of targets. They are called hockey sticks. When we look at a business plan, or any plan, suddenly next year seems so fantastic compared with this year, and all of a sudden we wake up on 1 January and say, "Oh great, we're going to do five times as much as we did in November." I must say that when I first looked at this plan, that was my thought. It is my job to be cynical. Just as it is the Opposition's job to be cynical with regard to me, it is my job to be cynical with regard to officials on the programme; that is what the system exists for.

Grahame Morris: Will the Minister clarify something? I am slightly confused. If the purpose of the measure is not to give the suppliers more time to meet their obligations, what is the justification?

Richard Harrington: I repeat that it is absolutely to extend the Secretary of State's powers. I was going to mention the 2023 issue and the reason for that. In fact, I scribbled myself a note to answer the hon. Gentleman's comments about it. So as not to repeat my own scrawl—in fact, I will repeat my scrawl later, because I cannot remember where I put the note.

On the 2023 issue, a lot of things in the powers are not about the targets. Richard Milhous Nixon, whose biography I have just been reading, said, "If you've got them by the balls, their hearts and minds will follow." I do not know if that is unparliamentary; if it is, I apologise. We could easily say, "That's it; we will leave those powers, because then they will do it", but that is not what is happening. I am not a fan of Richard Milhous Nixon, for those who might think that, but it struck me that that often in life, that is why people do things.

A lot of things in the powers that are needed will be involved in winding up. I will cover them a little bit later. I do not think it would be possible for any organisation to suddenly give a date—31 December or November or whatever—when the powers run out and that is it. A lot of the things involved go beyond the target. The targets are made with the suppliers. It was asked what happens if suppliers do not do this. There are powers to fine; the regulator has powers to fine suppliers, from memory—if I am wrong by a bit, I will correct the record—10% of turnover if they do not comply with the agreed targets.

Steve McCabe: Will the Minister give way on that point?

Richard Harrington: Go on—I cannot resist the hon. Gentleman.

Steve McCabe: It is a very simple question. The Minister says the regulator has those powers, but is there any evidence that they have been exercised?

Richard Harrington: They have not needed to be yet, but they are there. The hon. Gentleman does not mention—no one has given any credit for this—the 7 million smart meters that have been installed. That is quite a lot of smart meters. I have seen the programme that has been put out, and having spoken to so many of the companies and organisations involved, I am satisfied that it is a realistic target. I had better make some progress; I will not be able to address his amendment properly unless I do.

For me, this is the most significant thing that has happened in electricity, but also in power supply to homes, since Edison or whoever it was—hon. Members will have to excuse me; it is a long time since I did it at school.

Grahame Morris: Swan.

Richard Harrington: That is right. Swan was not matches then.

The Chair: Order. Let us get back to the Bill, please.

Richard Harrington: Let us get back to business straight away. I was tempted by the hon. Gentleman.

This is a precursor to a smart grid through which everyone—poorer people, richer people, businesses, houses—will be able to make real choices all the time. They might have computer programmes or apps to do it for them. Our children and grandchildren will not talk about SMETS 1 and SMETS 2, as the shadow Minister does in day-to-day conversation over breakfast. They will just look at what they are paying for their power every half hour or whatever, and they will know. That is why we are bringing forward the Bill.

[Richard Harrington]

We are committed to ensuring that every home and small business has been offered a smart meter by 2020; I believe that was in the Conservative party manifesto, so it must be true. That is our clear policy, and it is what we are going to do.

Stephen Kerr: Will the Minister say exactly what "offer" means in that context? There is an issue over whether "offer" equals mandate, but we have clearly said that there is not a mandate or a requirement for consumers to have a smart meter.

Richard Harrington: It is precisely that: it is not compulsory, it is an offer, which is deemed to be people being told by phone or in writing that they can have a smart meter, as indeed I have been and am arranging for. I am sure many hon. Members in this room will be doing the same.

The extension of the powers proposed in the Bill will enable us to drive progress to the 2020 deadline, act on evidence to remove any emerging barriers to the roll-out and then—this is the important thing for the 2023 extension—to respond to the findings of a post-roll-out review, to ensure that the benefits for consumers are fully realised over the long term. Industry and consumer groups have made it clear that they see a need for Government leadership on this, which we hope we are providing.

12.45 pm

I know it is not customary to try to answer questions put by Opposition Members, but I will do my best—*[Laughter.]* On the point, among many good points, made by the hon. Member for Birmingham, Selly Oak about the costs to consumers increasing, the Bill does not change the existing roll-out deadline. Consumers start saving as soon as their smart meter is installed. By 2020 the next benefit means that consumers will save £11 a year annually, rising to £47 a year by 2030. We are monitoring the costs, as is the regulator.

Dan Carden: I hope that the Minister will respond to one of the points that Derek Lickorish made the other day when he said,

"It is no good having a target that nobody believes in...we need a recognition now that says, 'We will look at all the issues and have a unity of purpose about what the targets should be'."—[*Official Report, Smart Meters Bill Public Bill Committee,* 21 November 2017; c. 37, Q69.]

What proactive undertakings is the Minister proceeding with to bring the suppliers together to make 2020 a realistic date in this context?

Richard Harrington: I can reassure the hon. Gentleman that we speak regularly to the suppliers. In fact, yesterday morning I met a group of them. I think Mr Lickorish was there, but certainly others who gave evidence, Mr Bullen and Mr Salter-Church from Ofgem, were there. BEIS has regular meetings. I would not put my name or that of the Department to this target if I thought it was unrealistic. Hon. Members have referred to Mr Lickorish's evidence showing some cynicism about it. The cliché on these occasions is, "He would say that, wouldn't he?" I am sure it is a genuinely held belief, but it is the Government's intent to make sure this happens. I would be hauled, as they say in the press, before whatever Committee if the target is not met in 2020, or whatever the date might be—not 2023, because that would be on a different issue; that is not the target. But I might end up being accused of misleading the House, albeit not on purpose, and being told I was completely wrong and should pay the price. However, I am personally satisfied that the date is not as unrealistic as Mr Lickorish said.

The extension of powers has been mentioned, and I think I have stressed enough that is not because of failing to meet the target. The hon. Member for Liverpool, Walton said earlier that he was concerned that the cost to consumers from the smart meter roll-out could be unlimited. He was probably referring to poorer people in our constituencies, who currently do prepayment and might suddenly be hit with an unlimited charge by suppliers, justified or not. I want to make it clear to him and to everyone else that we are monitoring the costs all the time. The DCC, which is a natural monopoly, simply because it is the only company connecting smart meters, is subject to price control regulated by Ofgem, which has provisions for monopolies. The DCC is slap bang in the middle of that.

Grahame Morris: Is there not a danger that building in an overrun will inevitably lead to cost escalation? The estimates presented in evidence were an increase from £1.3 billion to £2.1 billion, and the overall programme is £12 billion, which I think Mr Lickorish told us was the equivalent of 10 200-bed hospitals.

Richard Harrington: Actually, concentrating the mind in the Nixonian way, the next couple of years will surely lead to reduced costs because of economies of scale, but we can discuss that another time. I will be happy to.

The shadow Minister said that small suppliers have a weaker obligation in relation to 2020. That is not quite true, although he did not intend to mislead us with the wording he used. It is exactly the same obligation. The only flexibility the small suppliers have been given is that they can deliver their programmes in line with their broader corporate strategy. We are allowing the smaller ones to be later in the programme because, unlike British Gas and others that have been mentioned, they have not got the bulk.

Dr Whitehead: Will the Minister give way?

Richard Harrington: The hon. Gentleman will have to excuse me. I am being told to make progress.

Amendment 1 relates to the Secretary of State's power to modify the relevant electricity licence conditions and industry codes, which relate to the detailed regulatory framework, covering the activities of energy suppliers and network operators, and the data and communications licensee. It would cause those powers to expire at the end of 2020, which, again, has nothing to do with the target. I do not think anyone would argue that they should just disappear. I oppose amendment 1 because it removes the Department's ability to conduct an effective post-implementation review, which, as I said earlier, we will need to do. The aim is for that to happen in 2021. The extension of powers until 2023 allows us to complete that exercise and implement the recommendations.

I know that this is a probing amendment, as the hon. Member for Birmingham, Selly Oak said, but I do not think he took those things into consideration.

He concentrated his comments on whether to extend the target, which I hope I have covered. In contrast, in the absence of the power we are asking for to modify the energy licence conditions and industry codes beyond 2020, we would have to bring the review forward. For it to be consulted on properly, and to provide the appropriate parliamentary process, it would be necessary to conclude the evidence gathering the year after next at the absolute latest, which as far as I can see would completely reduce the robustness of the assessment and exclude valuable evidence from the final stages of the roll-out. It would also prevent the consideration of longitudinal research exploring the impact of smart metering on consumer behaviour, which is what this is all about, and energy saving over the course of several years. If it were carried out before 2020, there would not be enough evidence. I believe smart meters will be absolutely revolutionary, and will change the way people use their energy bills. If hon. Members believe in smart metering—I am sure you have been persuaded, as the rest of us have, Mr Gapes, that this is a really good thing to do—and think it is not just a short-term thing, it is right that the Government can ensure that the regulatory framework is there and is fit for purpose for decades to come.

Amendments 2 and 4 would limit the period to which the Secretary of State can veto Ofgem's proposal to give consent to the transfer of the whole or of any part of the communication licence. Again, if the amendments were passed, the Secretary of State could prevent the transfer only up to the end of 2020. DCC's smart meter licences were awarded in 2013 for 12 years. The curtailment of that power would create an imbalance in the Government's arrangements of the smart metering programme, undermining our leadership role within it.

I know it sounds like we want it both ways, but the Government's role is absolutely central to this. We have to provide the leadership that we have been asked for. I do not want to risk having a situation in which a smart meter communication licence was transferred in a manner that conflicts with activities undertaken by the programme as part of its post-implementation review. It is necessary to extend the power to 1 November 2023 to retain coherence in the Government relating to the smart metering programme and to ensure that these activities are appropriately co-ordinated.

Amendments 3 and 5 would limit the Secretary of State's ability to introduce new licensable activities in relation to the smart metering roll-out. The power we are talking about was used to set up the provision of the smart meter communications service, which led to the granting of the DCC's licences. I want to make it clear that we have no specified or defined plans to use the power. Perhaps the hon. Member for Birmingham, Selly Oak will still argue that if the scenarios change, primary legislation will be needed to go through it again, and I understand that. However, I can see scenarios that could develop where we will need the ability to introduce new, licensable activities quickly, in order to overcome barriers and to ensure that the benefits are realised. Such situations can arrive relatively late in the roll-out or in the immediate post-implementation period.

Grahame Morris: Will the Minister give way?

Richard Harrington: I would rather make some progress.

Grahame Morris: I just wanted an example, that was all.

The Chair: Order.

Richard Harrington: I know we have four more days, but I would like to make progress on this particular point, although I will give an example that might be acceptable to the hon. Gentleman. As an example, it may be necessary to create new licensable activities to ensure that all premises can secure a home area network if that cannot currently be achieved. Technology develops, as do apps, different systems and inventions. It is for us to be able to act quickly so that there is flexibility for the consumer to take advantage of all those things.

Our current explanation is that we may know when solutions are appropriate and viable for these premises only towards the end of 2020 or even in early 2021. I must say, clearly, that we would use this power only after going through the normal policy development process, including consulting relevant stakeholders. I feel that I have done my best to make that point. It is for us to show leadership in this matter. The decisions taken up to now have driven this momentum, and whatever has been said on cynicism about the targets, the installation volumes are increasing dramatically and it is important that we can keep a robust regulatory framework that enables the delivery of the benefits.

It is vital that this work can continue and that the Secretary of State retains the powers available to him to direct the efficient delivery of the roll-out. I am sure that hon. Members will take these points into consideration, other than the target itself, which we have discussed. The last thing that hon. Members want is a cliff edge—they argue against cliff edges many times on the Floor of the Chamber—and the last thing that we want in this case is a cliff edge. I hope that the hon. Gentleman will find these arguments reassuring and that he will feel able to withdraw his amendment

Steve McCabe: I am conscious of the time, but I want to be dead straight: I did not find that particularly reassuring, if I am honest. If hon. Members look through *Hansard*, they will find that I raised a number of questions that have not really been answered at all. As I said at the outset, the amendment was intended as a probing amendment, so I do not intend to push it to a vote at this stage. I recognise that the Minister is very sincere in his approach to this matter, but will he reflect on some of the points that have been made during this part of the debate? Perhaps at a later stage in Committee or in the Bill's progress, he will see whether he can be a bit more persuasive with the quality of the answers that provides. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Ordered, That further consideration be now adjourned. *—(Mike Freer.)*

12.59 pm

Adjourned till this day at Two o'clock.

Written evidence reported to the House

SMB 06 Derek Lickorish MBE, Secure Meters, Supplementary to oral evidence.

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

SMART METERS BILL

Fourth Sitting

Thursday 23 November 2017

(Afternoon)

CONTENTS

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Monday 27 November 2017

The Committee consisted of the following Members:

Chairs: Mike Gapes, †Mrs Cheryl Gillan

† Carden, Dan *(Liverpool, Walton)* (Lab)
† Debbonaire, Thangam *(Bristol West)* (Lab)
† Freer, Mike *(Finchley and Golders Green)* (Con)
Gibson, Patricia *(North Ayrshire and Arran)* (SNP)
† Grant, Bill *(Ayr, Carrick and Cumnock)* (Con)
† Harrington, Richard *(Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy)*
† Kerr, Stephen *(Stirling)* (Con)
† Lewis, Clive *(Norwich South)* (Lab)
† McCabe, Steve *(Birmingham, Selly Oak)* (Lab)
† Morris, Grahame *(Easington)* (Lab)
† Pawsey, Mark *(Rugby)* (Con)
† Quince, Will *(Colchester)* (Con)
Ross, Douglas *(Moray)* (Con)
Smith, Laura *(Crewe and Nantwich)* (Lab)
† Tolhurst, Kelly *(Rochester and Strood)* (Con)
† Warman, Matt *(Boston and Skegness)* (Con)
† Watling, Giles *(Clacton)* (Con)
Western, Matt *(Warwick and Leamington)* (Lab)
† Whitehead, Dr Alan *(Southampton, Test)* (Lab)

Jyoti Chandola, Clementine Brown, *Committee Clerks*

† attended the Committee

Public Bill Committee

Thursday 23 November 2017

(Afternoon)

[Mrs Cheryl Gillan *in the Chair*]

Smart Meters Bill

2 pm

The Chair: It is a little hot in here. Some Members asked earlier whether they could remove their jackets, and I am minded to allow that in this instance.

Clause 1

Smart meters: extension of time for exercise of powers

Steve McCabe (Birmingham, Selly Oak) (Lab): I beg to move amendment 12, in clause 1, page 1, line 5, after "23", insert

", except in relation to SMETS 1 meters".

This amendment would exclude the rollout of SMETS 1 meters from the extended licence.

It is a pleasure to serve under your chairmanship, Mrs Gillan.

The amendment would exclude the roll-out of SMETS 1 meters from the extended licence. Let me be absolutely clear that this most certainly is not a wrecking amendment. I really hope that we can bring a bit of clarity to some of the issues that the Committee is already dealing with and will labour on for some time to come.

The purpose of the amendment is to try to get to the bottom of the interoperability issue with SMETS 1 meters, which we heard a lot about in our evidence session on Tuesday. I really want to know why the Department for Business, Energy and Industrial Strategy should continue with the roll-out of SMETS 1 meters if they are not interoperable. I asked the Minister's predecessor, the hon. Member for Hereford and South Herefordshire (Jesse Norman), in a written question to suspend the installation of SMETS 1 meters until the interoperability issue had been resolved. His answer was no. He added that work was

"underway to make SMETS1 smart meters interoperable between energy suppliers, through enrolment in to the DCC's system."

Plans for a solution to this technical difficulty are supposed to be published by the end of this year. With just a few weeks of the year remaining, time is obviously short. I wonder whether the Minister can tell us whether his plans will be published before the Committee reports. It seems to me that this issue is likely to have quite a big bearing on the Committee's thinking as we work our way through the Bill.

The Government currently recognise two types of domestic meters as working towards the smart meter roll-out target. SMETS 1 meters are the first generation of energy smart meters, compliant with the first version of the Government's smart metering equipment technical specifications, or SMETS—it sounds like some Russian spy organisation. SMETS 1 meters were meant to be rolled out only as part of the foundation stage between 2011 and 2016. However, they are still being rolled out as part of the main roll-out phase because of delays in the SMETS 2 infrastructure.

The Government recently announced that as of 13 July 2018, SMETS 1 meters will no longer count towards the 2020 target, hence the amendment. If SMETS 1 meters will not count towards that target, why are they still being installed and why is an extension of powers relating to SMETS 1 required beyond the Government's 13 July 2018 date?

SMETS 2 meters are the second generation of energy smart meters, compliant with the second and latest version of SMETS. They were meant to be rolled out as soon as the main roll-out stage was launched in November 2016 and they were supposed to resolve some problems identified in SMETS 1. As a recent parliamentary question revealed and as I think we heard in evidence on Tuesday, we are still at the testing stage for SMETS 2. Only 250 of the meters have been installed so far, instead of the millions required before scaling up the roll-out.

As I understand it, Government policy is to encourage consumers to shop around and switch supplier to get the best energy deal but, as we have heard, there are many examples of SMETS 1 meters not being interoperable, so customers who have such a meter and switch might find themselves without a functional smart meter because it has then been placed in dumb mode. A witness told us that 20% of the 8 million meters already installed are now operating in dumb mode. In passing, I should point out that that is a substantial increase on the BEIS figure of 460,000 that I was given in a recent parliamentary answer.

Does the Minister accept in principle that the issue of interoperability—this problem of people thinking they have a smart meter and discovering that if they switch supplier they no longer have one—is having a detrimental effect on the public's perception of smart meters and the supposed benefits of the smart meter programme?

The aim, if I understand it correctly, is for smart meters installed by one supplier to be capable of being operated by another supplier, so that consumers may switch supplier and retain the smart benefits. In 2016, however, the Select Committee on Science and Technology found that the issue of interoperability of energy smart meters was one that it described as still "unresolved".

The Government continue to claim that work is under way to ensure that SMETS 1 meters will be interoperable through enrolment in the DCC system, but a number of industry parties have explored other approaches that enable consumers to retain their smart services when switching at present. We heard on Tuesday that the industry already has a solution to make SMETS 1 meters fully interoperable.

Mr Lickorish of Secure Meters explained that technical interoperability is now available for 95% of installed SMETS 1 meters. He explained—with the benefit of the cups—how technical interoperability can facilitate change of supplier and enable enduring smart functionality, and that that technology has already been demonstrated to BEIS. Instead of having one DCC system, the technology enables communications between people's smart meters and energy suppliers using a number of mini DCCs.

The companies Secure Meters and CGI have made their systems interoperable. Some 36 energy suppliers already use Secure Meters' mini DCC system and the majority of the big six use the CGI system.

Will the Minister explain why BEIS is resisting that approach? For energy suppliers, there would be no change in their existing business. They would continue to use the mini DCC system to operate SMETS 1 smart meters. They could also gain customers with SMETS 1 smart meters and there would be no need to operate the meters in dumb mode. The consumer would be able to switch retailer and retain smart functionality. The mini DCC system enables a change of supplier while retaining complete SMETS 1 smart meter functionality. I am at a loss to understand why the DCC is spending more and more money on a project that is perhaps unnecessary and at the very least ought to be reviewed, especially when we know that consumers will be picking up the bill.

The industry faces a number of challenges with the proposed July 2018 end date for the installation of SMETS 1 meters, in terms of the Government counting them as part of the programme, and the ramp up of SMETS 2. As previously discussed, there is a lack of certainty in the market generally and a lack of confidence that the targets set for the installation of SMETS 2 meters can be reached. It is also possible that the installation engineers, whose training has been heavily invested in, may be left without smart meters in April 2018. That is the point my hon. Friend the Member for Southampton, Test made this morning when he talked about the risk of people driving around with empty vans: there is a real risk that the money invested in those engineers will end up being wasted.

Two options are available to us at this stage; I genuinely want to know what the Minister's, and therefore the Government's, thinking is. The amendment is not intended to be a wrecking amendment, but I am at a loss to understand why we should persist with something that we think might not work and we fear might cost quite a lot of money when there may already be a viable alternative.

It could be that I have missed a perfectly valid explanation, but I do not think I have read that explanation anywhere and I have not heard any Minister propose that explanation so far. I hope that the amendment affords that opportunity to the Minister now.

We should either exclude SMETS 1 from the extension, as the amendment would, and say in no circumstances would it be sensible to allow energy suppliers to install them, or we could allow energy suppliers to install SMETS 1 meters and use the existing interoperable mini DCC systems. That does not mean that we could not move to the SMETS 2 system, but it would avoid the potential period, which my hon. Friend referred to, in which there could be a complete gap. That, it seems to me, would be the best way to protect the customer's interest. It may also be the best way to safeguard the programme overall. It is almost certainly the best way to provide some assurance that we can contain costs.

If we are left solely reliant on a system that requires the DCC, which is still in test phase—it is about to get an extension through the Bill—to spend more and more money, with those costs eventually rebounding on the customer, we are taking an enormous risk with our constituents' money without considering the other technical opportunities. That is the reason for the amendment. I want to know why we are going down this route.

2.15 pm

Dr Alan Whitehead (Southampton, Test) (Lab): This is the first opportunity I have had to express my pleasure at serving under your chairmanship in this Committee, Mrs Gillan. I am sure we will have a great Committee under your chairmanship for the rest of our proceedings.

I commend my hon. Friend the Member for Birmingham, Selly Oak on an excellent presentation of the problem at the moment with SMETS 1 meters being effectively rolled out in a way they were not originally intended to be. Because of various events, some of which I have alluded to, those meters have been rolled out in substantial numbers—in the millions—to date.

As my hon. Friend mentioned, the roll-out of SMETS 1 meters is supposed to stop by July 2018. The ordering process, the supply chains and everything else that has gone into SMETS 1 meters will be effectively extinguished in July 2018. At that point, theoretically, SMETS 2 meters should take over. Those are manufactured by different people and have different supply chains. In theory, those new supply chains and new meters for installation should be in place by July 2018, for the transfer between SMETS 1 and SMETS 2.

As my hon. Friend states, the issue is not quite as simple as that. Originally, SMETS 1 was a foundation model of smart meter, and SMETS 2 was supposed to the final item that would be the basis for the whole roll-out of smart meters, and the two meters were supposed to have very different properties. When SMETS 1 were first conceived of and introduced, they were not thought to be interoperable. If we wanted a long-term system whereby our meter would retain full functionality if we switched suppliers, we would need a SMETS 2 meter, because that could not be done with a SMETS 1 meter. Indeed, we saw in some of the early switching of SMETS 1 meters that switching does not allow for full functionality, and the meter then effectively acts as a dumb meter—that is to say, it produces the data and the material, but the in-home display and various other things do not happen.

Since that original clear distinction between SMETS 1 and SMETS 2 meters, quite a lot of work has been undertaken on the software arrangements of SMETS 1 meters. Indeed, with later iterations of the model, it now appears that SMETS 1 meters can be made effectively interoperable, as far as overall systems are concerned, through enrolment in the DCC or the mini DCC systems and their enrolment in the DCC. On an immediate basis, it is between the meter, the mini DCC system and the final DCC that is established.

In effect, one of the main issues that divides SMETS 1 meters from SMETS 2 meters may be in the process of being resolved. Indeed, that was the basis of some of the evidence we received earlier this week. As my hon. Friend the Member for Birmingham, Selly Oak rightly said, it appears that a number of issues arise from that. Do we continue to say there is a complete cut-off date concerning SMETS 1 meters and assume that SMETS 2 meters are coming on stream, or do we, taking that information into account, look at other ways in which SMETS 2 meters—which, by the way, have other advantages in addition to being interoperable—can eventually be rolled out?

I would add two complications to that scenario. First, the Government are already in the process of consulting on whether the July 2018 date should be moved.

[Dr Alan Whitehead]

A consultation document was issued recently with that aim precisely in mind. The consultation document suggests that suppliers—this is out for consultation, so it is not a final agreement—could for a limited period, I think it is three months after July 2018, continue to install SMETS 1 meters up to a number based on how many SMETS 2 meters they had already installed. They would therefore not be bound by the July 2018 date. That is, among other things, to make sure that the stocks of SMETS 1 meters in the pipeline can be used up properly.

There are problems with that. If the roll-out of additional SMETS 1 meters is allowed after July 2018 based on the number of SMETS 2 meters the suppliers have already put into place, it may not make much of a difference at all, given what we have heard about the number of SMETS 2 meters already installed. It may not make too much of a difference for another reason. As I mentioned this morning, because the DCC was so late in going live—there are still concerns about whether the DCC is live to the extent that we want—one of its central functions has yet to be put into place: the ability for a full end-to-end field testing of SMETS 2 meters, so that we know they really are going to work. That can be done only by installing a number of SMETS 2 meters, testing them against a live DCC and looking at how that all works in practice. That is not just one theoretical meter on the wall, but a whole range of SMETS 2 meters installed under different circumstances in different parts of the country so that we understand how that process actually works. To date, that process has not been undertaken, as far as I understand.

We are saying that in July 2018—or three months afterwards, subject to the consultation—there will be no more SMETS 1 meters and they will be replaced by a meter that is yet to have any field testing at all, regarding its operation. We are then saying that we are sufficiently confident—I hope the Minister will be able to advise us on this—that by that particular date, a large number of SMETS 2 meters will be available for installation, so that that handover can take place.

The problem, as I mentioned this morning, is that if that is not the case, the programmes to install smart meters—already underway, and ramping up considerably—will grind to a halt, because there will be no meters in the vans to go out and install. Even though people want a smart meter, have asked for one and have an appointment for one to be installed, it will not be possible to install that smart meter. The smart meter installation programme may well just pause because of that particular issue. Unless that issue is resolved, all the targets and milestones being put in place for supply companies could be completely overthrown; if the companies do not physically have the meters, they cannot meet the milestone requirements for a complete roll-out by 2020.

As the consultation alludes to—inadequately, I think—there has to be some kind of solution to that potential impasse. Either we have to be clear that SMETS 2 meters will be available in volume, reliably and tested, so that they can get into the vans, or we look further at the position of SMETS 1 meters. That is at the heart of the amendment.

As we have established, SMETS 1 meters were originally supposed to be only part of the foundation programme, but they have had a use far beyond that, and people have been working on their development far beyond what was supposed to be the case. We have therefore developed a substantial supply chain and manufacturing base for SMETS 1 meters that was never supposed to be. There was supposed to be a limited manufacture and limited supply, with a small number rolled out that would be replaced by SMETS 2 meters, and that would be the end of the SMETS 1 meter. They were never supposed to be on the walls of millions of households. People were never supposed to potentially have to rip those smart meters out at some stage to put new ones in, if some of the fixes had not been put forward.

Indeed, I suggest that the development of those fixes and programmes to make those smart meters interoperable arose precisely because of that hiatus. If the people manufacturing those smart meters and concerned with their roll-out had not done that work, we would be in a desperate place. All the smart meters rolled out to date would effectively have to be junked, and we would have to start all over again, several years down the line, with the 2020 roll-out date looming. It looks like that will not be necessary, but the consequence is that SMETS 1 meters have taken on a different dimension as far as the whole roll-out is concerned.

Does the Minister have further intentions for the use of SMETS 1 meters in the instance that SMETS 2 meters are simply not ready and available for installation? If he does have plans for further installation of SMETS 1 meters beyond the July cut-off date, is he confident they will work as well as he might think? If he does think they will work in the eventual scheme of things, does that not suggest there is a further potential role for SMETS 1 meters up to the end of roll-out, over and beyond what the Minister has considered so far? That is to say, is it possible to think about a much longer-term roll-out arrangement for SMETS 1 meters? SMETS 2 meters would come on in the future, as meters are replaced by new ones by the end of the roll-out date overall, but the bulk of the heavy lifting in the initial roll-out would be done by SMETS 1 meters.

This needs to be considered in conjunction with all the other issues we will discuss in Committee about the difficulties and problems to overcome leading up to the end of the roll-out period. Are we not creating an additional hurdle to get over in the roll-out by how we are doing the SMETS 1 and SMETS 2 changeover? Might we not lower the height of that hurdle by furthering considering what we do about SMETS 1 meters over the next period?

2.30 pm

I think the whole Committee is concerned about whether we will be able to get to the end of the roll-out date with the hoped-for number of meters having been installed. We would be wise to take this issue seriously and to think carefully about what we do about SMETS 1 and SMETS 2 meters over the next period, so that we at least have a clear line ahead for industry, for those who are installing the smart meters and for the overall progress of the programme. If we can achieve those three aims by looking carefully at what we do about SMETS 1 and SMETS 2 as a whole, we will have done a seriously good turn for the roll-out.

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Richard Harrington): Like everyone else, I formally welcome you back to the Chair—you were here for the programme motion. I am sure that, if I stray from the scope of what is being discussed, you will be just as much a disciplinarian as Mr Gapes was this morning. I shall do my best to comply with his edicts and yours.

The Chair: That is good to hear.

Richard Harrington: Well, I promised I would do my best; I did not say anything legally binding. No, of course I shall. You will tell me if I do not.

As with everything else we have discussed, I fully respect the Opposition's intentions and the contribution from the shadow Minister, as ever. The hon. Member for Birmingham, Selly Oak confirmed again that the amendment is not intended to wreck the Bill, which I fully accept. However, I will point out, from the Government's point of view, that a lot of myths are doing the rounds about the differences between SMETS 1 and SMETS 2. I felt it might be worthwhile for me to explain them.

First, the hon. Member for Birmingham, Selly Oak repeated some evidence given during oral evidence—the contention that 20% of 7 million smart meters are now dumb meters. I do not recognise that figure from the numbers I have been given or from my conversations with stakeholders and officials. The number we have is 4%, not 20%. I fully accept in principle that, because of a change of supplier, some meters become dumb, but I do not believe the problem is as comprehensive as the evidence given suggests.

Obviously, I will be very happy for that evidence to be given if its numbers could be verified. I felt I ought to make that point, because I think the SMETS 1 programme has been successful in its own right. There are 7 million of them, and the vast majority provide a lot of really helpful information to the residents concerned, and that is what they are for.

I will try to clarify the list, which I scrawled down while the shadow Minister was speaking, of the differences between a SMETS 1 with DCC interoperability—the software that will allow them to talk to each other—and the SMETS 2. It is quite important to know, because very few of us—including me, I might add—are experts on the technical side of things. In practical terms, which I think is the most important matter for our constituents and should therefore be reflected in the laws that we try to make, the differences between a SMETS 2 and a SMETS 1 with DCC software are not very great; there are some differences, but most of their functions are the same. A SMETS 2, rather than a converted SMETS 1, has some technical flexibilities, but they are all fundamentally better than a dumb meter. I have looked at both SMETS 1 and SMETS 2, and have examined them while asking this question, and there is not that much difference between a converted SMETS 1 and a SMETS 2. It is just the fact that technology moves on. The SMETS 2 is certainly better, but when the software comes into being it will be able to do most things. The hon. Member for Birmingham, Selly Oak said that what were smart meters would become dumb meters; that will certainly not be the case.

Grahame Morris (Easington) (Lab): Will the Minister clarify that point on the SMETS 2 meters for my benefit and that of the Committee? The key issue that was raised originally with the witnesses was interoperability. Obviously, that problem is being solved by the SMETS 2 meters, so theoretically it is possible to solve the problem of interoperability. Will the SMETS 1 generation of smart meters require a different methodology to solve that problem in order to recalibrate them to give them that interoperability functionality—if that makes sense?

Richard Harrington: The hon. Gentleman makes a lot of sense, but not in a technical way. I cannot answer him in a technical way, other than to say that my understanding is that the software is remotely operated—in our day we might have called it via the lines—through the air to the meter, so it is not a question of people coming out to revisit them to make them nearly as good as SMETS 2s. The SIM card on the dumb ones is reactivated remotely.

One of the good points about SMETS 2s is that they allow energy suppliers to roll out smart meters to premises that just have gas customers. They allow distribution network operators to view maximum electricity demand for a premises in order to plan their network investments. There are a number of specialist types of smart meters, for example, polyphase meters for large electricity users, and smart meters that can be used to replace traditional Economy 7 and 10 teleswitches, which we may have come across in our constituencies, and they can only be SMETS 2. But when upgraded—if I may call it that—with the DCC software, SMETS 1s do most of the smart things that SMETS 2s do. It is just how things move on. We must accept the fact that the foundation stage of the programme was based on SMETS 1, which was infinitely better than the previous option of different companies manufacturing different types of meters for their own customers, perfectly properly, with the technology that there was. This system has replaced that anarchy—although it was legal anarchy—in terms of national organisation.

I accept the point about timing, but the foundation stage was always intended to be different from the main installation phase. We have to see this transition from SMETS 1 to SMETS 2, because it is the latest technology and we want as many people as possible to have it. I feel it is fair to say that the foundation stage has provided real benefits. We are seeing savings. Mr Bullen, in particular, spoke about his 600,000 prepayment customers with the key system, which is very old fashioned and difficult for elderly people and vulnerable people. Anyone can recognise objectively that that has been a very good thing; had we waited for SMETS 2 to be developed, those people would not have had the benefit of smart meters. It is fair to say, like with any new technology, that we want to see the industry move from SMETS 1 to SMETS 2 as soon as possible, for the reasons I have explained.

The witness from the supplier company, Secure Meters Ltd, was basically arguing very much for SMETS 1, presumably because that company is a big supplier of SMETS 1 meters. I do not mean that in any sarcastic or improper way; that is what the company does. It was said very clearly that at the moment 250 SMETS 2 meters have been connected. I hope that in the two days since then, it is a lot more than that, but it is a small number. *[Interruption.]* Well, at least 251, if I may say so to the shadow Minister. Anyway, they are being installed.

Dr Whitehead: They have not been tested yet.

Richard Harrington: I will try to come on to that.

Secure Meters was saying that its kit can offer interoperability; why do we need the DCC? I state again that it is the via the DCC network operators can access meters to provide a lot of system benefits. All suppliers are required to use DCC for SMETS 2 meters, which allows full interoperability for enrolled meters; we are not talking about just one company. Several hon. Members have mentioned fear about the DCC's price control. DCC offers opportunities to enhance security arrangements. The main point is that the DCC systems have been future-proofed. This is not one company providing a system that, with the best intentions, works but is not part of a national system and is not future-proofed in the same way as we expect DCC to be.

In answer to the question that was asked, DCC has published an approved plan, which was agreed by BEIS, for this system to begin in late 2018, so that consumers can keep their smart services when they switch supplier. That will be done. There is, if I may say so, some cynicism—I mean that in a polite way—about whether it will work or work quickly. It has been suggested that it is untested and so on, but it is being done in phases, batch by batch. We heard evidence from the chief executive officer of DCC that this is a very serious operation. Some could say that it is a very expensive operation, but it is not a wing-and-a-prayer type of thing, as much as any software roll-out is not—I am perfectly prepared to accept that. From big Government projects all the way through, I accept that recent history is littered with disappointments in the efficiency of these roll-outs, but the DCC was very carefully appointed and has very carefully been tested. BEIS is monitoring very successfully, and we are happy with what we have produced. Subject to a cost and security assessment, we expect all SMETS 1 meters to be enrolled in DCC. As I have said, that will make them similar but not exactly the same as the SMETS 2 meters.

I say this in the spirit in which the amendment was meant—I say it in good faith; it is not some political point. I believe that the amendment could undermine delivery of this project, for example where changes to the regulatory framework are needed after the current expiry date of October 2018 to ensure that the process for enrolling the meters into DCC runs smoothly. Were the amendment to apply, such changes could not be made. That would risk delaying or even preventing the benefits of an interoperable service for energy consumers. I state again that I know that that is not the intention of the amendment. That would be irresponsible, and the hon. Member for Birmingham, Selly Oak is anything but irresponsible about this project; he cares for it as much as me or anyone in the Committee or, indeed, in the House generally.

In addition, the amendment would mean that any new consumer protections or other obligations on suppliers introduced after our powers' current expiry date would not be applicable to SMETS 1 meters or consumers with those meters. Again, I am sure that the hon. Gentleman does not intend that. I know he wants to ensure that relevant consumer protections extend to consumers, whatever type of smart meter they happen to have.

I hope that my explanation reassures hon. Members that we recognise the benefits of moving to SMETS 2 as soon as possible and have established a clear end-date for SMETS 1. We are delivering a solution to resolve the interoperability issues that may be experienced when a consumer with a SMETS 1 meter switches energy supplier. We have thought about this issue, and I am very happy to discuss it with individual Members if they feel that I have missed something out. I hope that on that basis, the hon. Member for Birmingham, Selly Oak feels able to withdraw his amendment.

Dr Whitehead: Will the Minister say something briefly about the consultation that is under way on extending the period after which SMETS 1 meters cannot be installed? Will he perhaps inform us of the intention behind the consultation, and whether it has any bearing on our discussion today about the interface between SMETS 1 and SMETS 2?

2.45 pm

Richard Harrington: I want to make the answer very precise, so I would rather write to the hon. Gentleman about the consultation, if that is acceptable, rather than give him a vague answer that does not have the precision he deserves.

Steve McCabe: As I said at the outset, the amendment's purpose was to explore this problem and to help Members to get a better understanding of interoperability. A question mark hangs in the air about how successful the SMETS 2 roll-out will be and what the problems will be if we end up with a lot of SMETS 1 meters installed but no longer counted in the Government's target or, as my hon. Friend the Member for Southampton, Test said, with a hiatus in which there are no meters available. The amendment's purpose was to explore that point.

The Minister has done his best to explain where he stands. I am not sure that we have reached complete agreement on that, if I am truthful with him, but he has done his best and it would not serve any useful purpose to force the amendment to a Division. That would be a wrecking amendment, which is not my intention, and I am grateful for what he said. I ask him to continue to reflect on this issue, which will be central to the roll-out programme and needs to be considered. However, I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Steve McCabe: I beg to move amendment 6, in clause 1, page 1, line 12, at end insert—

"(c) in section 56FA(3) after 'including', insert—

", the supply of such meters to energy companies, the disposal of old or malfunctioning meters and".

This amendment would allow the Secretary of State by order to add "the supplying of smart meters to energy companies" and the "disposal of old or malfunctioning smart meters" to the list of licensable activities.

The Chair: With this it will be convenient to discuss amendment 7, in clause 1, page 1, line 19, at end insert—

"(c) in section 41HA(3) after 'including', insert—

", the supply of such meters to energy companies, the disposal of old or malfunctioning meters and".

This amendment would allow the Secretary of State by order to add "the supplying of smart meters to energy companies" and the "disposal of old or malfunctioning smart meters" to the list of licensable activities.

Steve McCabe: The distinction between amendments 6 and 7 is that amendment 6 applies to electricity and amendment 7 applies to gas. Otherwise, they are effectively the same.

I hope that the Minister considers the amendments to be sensible. They grant the Secretary of State the powers to license and regulate meter asset providers and deal with the disposal or recycling of metering equipment. I am conscious that disposal is currently subject to an EU directive—without wanting to get into that debate, which seems to be the only debate we have these days. None of us knows at this stage what will happen to that directive, but we know that a large existing supply of meters has not yet been disposed of in accordance with the directive and that the supply of meters could grow. I am trying to offer the Minister and the Secretary of State an opportunity to take some powers to deal with that, which may become a pressing issue in the near future.

Let me start with the meter asset providers—or MAPs, as I believe they are known in the industry. As we heard from expert witnesses, MAPs are crucial players in the current roll-out programme. I was interested to learn a bit more about what MAPs are. A cursory online search told me that meter asset providers are independent providers of metering equipment, constructing and operating essential utility assets to serve millions of homes in the UK. They provide the following services: funding provision, contract management, asset management, asset tracking, fault management and asset disposal.

As Members will have spotted, there is a connection between the role of MAPs and what happens to redundant and old meters at the end of their life. MAPs are essentially the middlemen, providing, managing and disposing of smart meters. When I was first told about them and was trying to understand them, the best analogy that I could come up with was a football agent—the person who smooths the path to the club, provides the player and helps the player move on when it is in their interest. It seems to me that MAPs do a similar job: they essentially provide a facility for energy suppliers.

As Members may recall, Mr Bullen told us that MAPs play an important funding role. I take this opportunity to mention that Mr Bullen got in contact with me after the evidence session to make it absolutely clear that his company has no role or direct beneficial interest in relation to MAPs; that might not have been the impression given to the Committee during the session, but he was very clear. I wanted to put that on the record so that there is no doubt about it. Mr Bullen told us that MAPs play a beneficial role by providing a funding arrangement to make capital available so that energy suppliers can install smart meters without absorbing the cost from their cash flow. The MAP then rents the smart meter to the energy supplier throughout the course of the meter's life. That is basically how it works, as I understand it.

However, when a customer switches supplier, it is not necessarily in the supplier's interest to take on the potentially high rental cost of a SMETS 1 meter, particularly if they have been told that a mass roll-out of SMETS 2 meters is just around the corner. Commercially, it is better simply to turn the installed meter to dumb mode and install a new meter—perhaps an identical meter—using a cheaper contract with a different MAP. That seems to be how we got into the situation that we have been discussing.

In that context, it is a vital message for the Committee that SMETS 1 meters are technically capable of interoperability using the mini DCC systems, but there is often a lack of commercial interoperability when people switch from big six companies to smaller energy suppliers, which is exactly what we are encouraging them to do and what BEIS is telling consumers they should do.

I suggest that that commercial problem is causing the biggest issues with the smart meter roll-out for both consumers and suppliers. Members will recall that one witness described them as deemed rentals within industry circles. Basically, the acquiring energy supplier would not necessarily have the same contract with the same MAP and therefore the customer says, "I am switching from supplier A to B." The customer already has a smart meter provided in conjunction with their contract with supplier A. When they switch to supplier B the MAP gets involved and says, "There's a meter in place, but this is what we are going to charge you in order to use it as a smart meter."

The supplier is not sure what is happening, how long they will be able to maintain this SMETS 1 meter, and how long it will be before the Government's promised move to SMETS 2—they are told it is just around the corner. Not surprisingly, the MAP tries to take advantage of this situation by offering the rental at an even better rate, to get an even better return over what they assume will be a shorter time. As I understand it, to the best of my ability—I have spent quite a lot of time looking at and discussing this—that is what happens.

The new supplier has two choices. They can either take on an expensive contract, which actually diminishes their profit, or they can put the meter into dumb mode. In some circumstances, they can go to another MAP and put an identical meter into the customer's property, but they will pay a lower charge for that.

It is an unregulated market. It seems to me to be having a perverse impact on the benefits for customers that the Minister is trying to achieve and his roll-out programme. Citizens Advice has said that that severely damages the credibility of the smart meter programme.

I am not saying that this is a case of bad business or horrible profiteering companies. That is not the point I am trying to make. Rather, the market as it exists has provided for the development of this middleman, who is entitled to try and make the maximum profit available to him in what he judges to be the timeframe available for that product. Naturally, he looks at every opportunity to increase his return. It seems to me that that is exactly what is happening, but the consequence is this situation where we have all these dumb meters. I do not know, but the Department told me in a parliamentary answer that the number in dumb mode is actually 460,000; obviously the witness who told us it is 20% thought it was a considerably higher figure. Whether it is half a million or more, we know that the intention that a person gets a smart meter and can continue to use it when they switch supplier is being thwarted because of the market mechanism that has developed because of the need for the middleman to make money. That is what this is about.

I suggest that it would be in the Minister's interest to take some powers to regulate that market, to make it part of his licensable activities. I am not saying in this

[Steve McCabe]

amendment that he has to use them. I am not telling him to do anything, but I am saying that this is where we are and this is what is happening now. It is already having an impact on his programme ambitions and it could continue to thwart them even further. The Bill is designed to deal with events the Minister fears could occur. He keeps telling us that those are not things that will happen and that the roll-out is fine. He tells us that this is a belt-and-braces piece of legislation designed to address things he is anxious about, but we should also be anxious about the role of MAPs. They not only have an adverse impact on consumers but may well be distorting the progress of the very programme the Minister is trying to promote. It would make perfect sense if he took powers that enabled him to step in and act to regulate that element of the market if he reached a stage where he felt it was in the interests of the programme's long-term viability and of the consumers, for whom he clearly has an overriding concern.

3 pm

I do not think there is a great deal of purpose in my talking extensively about the second part of the amendment, which relates to disposal. I simply point out that these meters are assets owned by the MAPs. Those businesses may, in the long run of events, have a relatively short life in this industry. Understandably, they may be trying to make the maximum profit available with a piece of technology at a particular stage in the cycle. That is how quite a lot of businesses operate. I am not making judgments about that, and I think many Conservative Members would understand and accept that position. That may not be a permanent feature of the energy industry. The MAPs may be a transitory component, and that is a very good reason for keeping an eye on them and having the powers to regulate them if need be.

The MAPs will at some stage be left with a large supply of meters that have to be disposed of. Because we cannot be sure what will happen with the EU directive, it would make absolute sense for the Minister to have a provision in his belt-and-braces legislation so that if we were to run into difficulty, we would not need to rush through emergency legislation.

I was present when the Minister proposed the Nuclear Safeguards Bill just a few weeks ago. I do not think I can quote him verbatim, but if I recall correctly, his argument for the provisions he was promoting was that he wanted to have sensible legislation in place in case he needed to take action for the benefit of the wider community. On that occasion, I thought he was absolutely right. I suggest that he would be equally right to accept those powers now to safeguard against events about which we cannot be entirely confident at this stage.

Dr Whitehead: My hon. Friend the Member for Birmingham, Selly Oak has tabled an amendment that is not only interesting but timely and important. As he says, it would be overwhelmingly helpful to the roll-out procedure and would not force anyone to do anything. It would give the Minister the opportunity to consider what should be done, perhaps by secondary legislation or something similar, to confront the issues raised by what we might call reverse meter logistics, which the industry is beginning to talk about.

The amendment is particularly helpful, because this problem is not a theoretical problem for the future, or something that we can think about during the extension period; it is happening now. Indeed, the problem is not only happening now, but its extent and complexity will inevitably increase hugely as the number of new meter installations ramps up, and it will increase even more if we have any further issues with replacing SMETS 1 and SMETS 2 meters as we go through the roll-out process.

There are several aspects of the problem. First, what about malfunctioning and existing smart meters that are no longer installed and are now redundant? Secondly, what about the huge number of existing meters that will be removed and need to be disposed of as smart meters are installed? It is a combination problem. However, it is joined together by the issue of the status of meters generally—not just smart meters—in the firmament of electricity and gas supply.

Indeed, my hon. Friend has pointed out the existence of the MAPs, and it has been a long-standing arrangement in the industry that the meters are not owned by the suppliers; the meters are merely read by the suppliers. The supplier will contract others, even, as happens currently, when a dumb meter is being replaced by another dumb meter. The normal thing is that the supplier will contract with a MAP to put a meter in. The MAP has a very secure asset, inasmuch as they put the meter in, get a charge for the operation of the meter and they carry out a contract for the supplier, but they always essentially own the meter in the last instance.

When we pursue a programme of removing old meters, whether they are dumb meters or previous generation smart meters, we have a problem that is precisely the reverse of the situation when the meters go in, namely that the meters being removed by suppliers—because they are the people putting the new meters in—do not actually belong to them. So as I understand it, we now have a situation where, in warehouses up and down the country, there is supposed to be a process of reverse meter logistics taking place. That consists, essentially, of triaging those old meters, deciding who the actual owner of a meter is, and then inviting the owner of that meter to come and collect it, in order to dispose of it. The suppliers themselves do not have the ability, in their own right, just to dispose of the meter, because it is not their meter to dispose of.

The consequence of that is, first, one is not entirely sure who the owner of the meter is in some circumstances, when a meter has been taken off a wall. Unless there has been careful archiving and, as it were, archaeological numbering of meters, to determine where they need to be taken, and unless there are absolutely first-class systems of triaging, inevitably the system of getting those old meters out becomes jumbled up.

We could have meter mountains across the UK. The meters are potentially valuable assets. They are worth having, with their rare earths, rare metals and all the rest of it; they can be recycled well. However, if there are warehouses full of meters whose provenance is not known and nobody is coming to claim them, and the meters cannot be processed, the only solution is to go and tip them into landfill. Then we will get a terrible outcome to what should be an entirely different process as far as meter re-provision is concerned.

My hon. Friend the Member for Birmingham, Selly Oak touched on the reason for that; it is because of the waste electrical and electronic equipment directive. In case

hon. Members think that directive will no longer apply once we leave the EU, I remind them that it has already been implemented into UK law.

The WEEE directive introduces producer responsibility for disposing of electrical and electronic goods. In principle, that is a good thing: when someone needs to dispose of their fridge, freezer or hi-fi system, the company that produced it should have a hand in that. Quite sophisticated systems have evolved for sending electrical goods back to their producers for disposal. That is fine for goods labelled "Panasonic" or "Electrolux", but I am sure hon. Members can see that it is much more difficult for redundant meters.

If we are not careful, this issue will overwhelm the roll-out or at least have a significant negative effect on the overall atmosphere of it. After all, before the directive was implemented we had fridge mountains in this country, as the Committee may recall.

Mark Pawsey (Rugby) (Con): But not any more.

Dr Whitehead: That is because the WEEE directive operated properly, but before it was implemented there were a number of small alps of electrical goods around the country. It will reflect badly on the smart meter roll-out if we end up with Dolomites of old meters as a memorial to it.

We must sort this problem out. Amendment 6 gives the Minister a golden legislative opportunity to do so; we may not get another, so he should be anxious to grasp this one with both hands. I hope he will.

Richard Harrington: I will try to deal separately with supply and disposal, just as the hon. Members who spoke to the amendments did. The Government are clear that we support free markets and the benefits of competition generally. However, we have also shown that we are quite prepared to regulate where necessary to protect consumers.

We have done a lot to regulate energy suppliers. Their licence conditions require them to use smart electricity and gas meters that meet the SMETS standard. All energy suppliers must install smart meters that conform to minimum common standards, including ensuring that they are, or can become, interoperable and can be used by competing energy suppliers.

The supply of the meters themselves is a competitive market. There are quite a few suppliers, and they compete with each other; some manufacture both SMETS 1 and 2 meters. The Government set the technical standards, but it is up to the market and the suppliers to compete for the best price. Competition from other energy suppliers would mean that if smart meters supplied were unreliable, incompatible or unduly costly, suppliers would risk losing customers. I do not mean risking losing consumer customers—the wholesale supplier of the product rather than the end user. There is strong competition. Energy suppliers and meter asset providers have plenty of choice.

3.15 pm

This morning I provided the Committee with some details on who the asset owners actually were, which I handed out informally, and left with the Clerk. Now it has been referred to, could it be included as written evidence to the Committee? All those Committee members who wanted to have seen it.

Competition is leading to lower prices and continuous innovation and I do not believe it is necessary for the Government to provide for further powers requiring meter manufacturers to be licensed, because competition is working and effective product standards are already in place, ensuring good value to energy customers. I have not seen evidence to the contrary.

The amendment, as currently defined, may also provide for orders requiring these asset providers to be licensed. Those companies own traditional smart meters and rent them to energy suppliers. That allows the asset provider to aggregate demand and assess lower-cost finance, as well as supporting competition by avoiding the costly transfer of meter ownership when consumers switch energy supplier.

The point that the shadow Minister mentioned is very complex. When I first looked at it, I was very confused about MAP. The evidence we were given the day before yesterday, although very interesting, confused quite a few people. I should explain that suppliers have two choices when they gain a meter. They sign what is known as a churn contract with one of the meter asset providers, which broadly mirrors the installing supplier's contract, or they pay the deemed rental, mentioned in the evidence and by the hon. Member for Easington in his intervention, that means a higher price but provides flexibility.

We come back again to the DCC, which I know some people are cynical about, including some hon. Members today. One of the benefits of the DCC system, however, is that we believe that the greater certainty provided by the operation of the SMETS 1 meters, as adapted to DCC, will increase the uptake of churn contracts.

Clive Lewis (Norwich South) (Lab): Having listened to the amendment moved by my hon. Friend the Member for Birmingham, Selly Oak, I think he is articulating a market failure. I am listening to you quite carefully.

The Chair: Mr Lewis, you are not listening to me; you are listening to the Minister.

Clive Lewis: I apologise. It seems to me that the Minister is ignoring the fact that many of these meters are being switched to being dumb meters. Therefore it seems that this system is not working and the market is failing. The Minister may say that the market is working, but it is not, because so many meters are being switched to being dumb meters.

Richard Harrington: I actively disagree with the hon. Gentleman. I accept the problem—whether it is 4%, 20% or the numbers that have been talked about that do not work—but I do not view that as an aspect of market failure. In my submission, market failure would mean the charge being 400% or 500% of the cost of manufacture. I regard it as a failure, but a technical failure that we hope will be changed within months by the operability technical changes, as I explained. I understand what the hon. Gentleman means, but I do not regard it as market failure. My contention is that the regulation of the supply, or the ability to regulate, as the hon. Member for Birmingham, Selly Oak mentioned, would not have made a difference to the technical failure side of it.

Steve McCabe: I just want to clarify what the Minister said, in case I misheard him. I think he said it is not a market failure but a technical failure, which within

[Steve McCabe]

months we hope to address. As I pointed out earlier, his Department's position is that it is meant to be addressed by the end of this year. In fact, I asked him if he would produce the plan by the end of the Committee. Is the Minister now revising that timescale? Is that what he is telling us?

Richard Harrington: I used the expression "within months" as a figure of speech; I apologise for that.

Steve McCabe: I just want to be clear.

Richard Harrington: It is a very fair point. I did not do it as a way of pulling back on what I said before, I promise. The point I want to make is that the Government do not believe it necessary to make provision to require MAPs, as asset providers, to be licensed because the competition is working and providing good value to energy consumers.

I move briefly on to meter disposal. Away from the Committee, the hon. Gentleman and I had a discussion on this, and I have given it considerable thought. This is not an excuse, but the responsibility for disposal lies with the Secretary of State for the Department for Environment, Food and Rural Affairs. I have not discussed this issue with the Secretary of State, or in fact anything to do with general disposal issues, particularly not gas and electricity meters.

If the hon. Gentleman will bear with me, I suggest that we hold a roundtable with DEFRA and BEIS officials, himself and the shadow Minister, if he is prepared to come—I hope he will—so that we can discuss this. It is not something I can give a short answer to; it is much more complex than I first thought. Having made both those points, I would be delighted if the hon. Gentleman agreed to withdraw his amendment.

Steve McCabe: I am very happy with what the Minister said in his conclusion. An opportunity for people to get around the table and see whether we can agree a situation where people are comfortable with what is likely to happen seems a good and sensible proposition. I can see he was very relieved to discover that the issue is not directly his responsibility.

I have to say that I am not at all convinced by the Minister's comments about the first part of the amendment. I think there is a failure of the market here. It is having, as I pointed out, a negative impact on both the consumer and his programme. I am tempted to test that with a vote, but given what the Minister said at the end of his remarks, I would prefer to ask him if he will think again about the role of MAPs. There is time before the end of the Committee and the conclusion of the Bill's passage. There is an issue here, and I would be grateful if he at least went back and discussed it again with his officials.

As I tried to point out, I am not against these businesses or out to put them out of business. I am concerned about the impact of some of their behaviour in this environment and the unintended effect it may have on both consumers and the Minister's programme. In the circumstances, it would be better to give him a chance to reflect on that. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Ordered, That further consideration be now adjourned. *—(Mike Freer.)*

3.24 pm

Adjourned till Tuesday 28 November at twenty-five past Nine o'clock.

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

SMART METERS BILL

Fifth Sitting

Tuesday 28 November 2017

(Morning)

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No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Saturday 2 December 2017

The Committee consisted of the following Members:

Chairs: †Mike Gapes, Mrs Cheryl Gillan

Carden, Dan *(Liverpool, Walton)* (Lab)
† Debbonaire, Thangam *(Bristol West)* (Lab)
† Freer, Mike *(Finchley and Golders Green)* (Con)
† Gibson, Patricia *(North Ayrshire and Arran)* (SNP)
† Grant, Bill *(Ayr, Carrick and Cumnock)* (Con)
† Harrington, Richard *(Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy)*
† Kerr, Stephen *(Stirling)* (Con)
† Lewis, Clive *(Norwich South)* (Lab)
† McCabe, Steve *(Birmingham, Selly Oak)* (Lab)
† Morris, Grahame *(Easington)* (Lab)
† Pawsey, Mark *(Rugby)* (Con)
Quince, Will *(Colchester)* (Con)
† Ross, Douglas *(Moray)* (Con)
† Smith, Laura *(Crewe and Nantwich)* (Lab)
† Tolhurst, Kelly *(Rochester and Strood)* (Con)
† Warman, Matt *(Boston and Skegness)* (Con)
† Watling, Giles *(Clacton)* (Con)
† Western, Matt *(Warwick and Leamington)* (Lab)
† Whitehead, Dr Alan *(Southampton, Test)* (Lab)

Jyoti Chandola, Clementine Brown, *Committee Clerks*

† attended the Committee

Public Bill Committee

Tuesday 28 November 2017

(Morning)

[Mike Gapes *in the Chair*]

Smart Meters Bill

9.25 am

The Chair: Before we continue line-by-line consideration, I have a few preliminary announcements. Please switch your electronic devices to silent. If you wish to take your jacket off, Mr Freer, you may do so. Tea and coffee are not allowed during sittings. I remind Members that today's selection list is available in the room and on the Bill's webpage. It shows how the selected amendments have been grouped together for debate. Amendments grouped together are generally on the same or similar issues. A Member may speak more than once in a single debate. If any Member wishes to press any other amendment or new clause in a group to a vote, they need to let me know. I shall work on the assumption that the Minister wishes the Committee to reach a decision on all Government amendments when we reach them.

Please note that decisions on amendments take place not in the order they are debated, but in the order they appear on the amendment paper. In other words, debate occurs according to the selection list, but decisions are taken when we come to the clause that an amendment affects. Decisions on adding new clauses or making changes to the long title are taken towards the end of proceedings but may be discussed earlier if grouped with other amendments. Finally, I shall use my discretion to decide whether to allow a separate stand part debate on individual clauses and schedules following debate on the relevant amendments. I hope that explanation is helpful.

Clause 1

Smart meters: extension of time for exercise of powers

Dr Alan Whitehead (Southampton, Test) (Lab): I beg to move amendment 13, in clause 1, page 1, line 21, at end insert—

"(4A) The provisions set out in subsections (2) and (3) do not allow the Secretary of State to remove any licensable activities presently enabled in respect of smart meter communications or other activities."

This amendment prevents the Secretary of State from using the extension of these powers to remove currently licensable activities.

The amendment is fairly straightforward and relates to a memorandum that the Department for Business, Energy and Industrial Strategy submitted to the Delegated Powers and Regulatory Reform Committee concerning the arrangements that the Department wishes to make through the Bill. Among other things, it justifies—or attempts to justify—a number of the provisions. I will refer to that memorandum on a number of occasions today.

The memorandum sets out what the Bill is expected to do, what the delegated powers taken in the Bill do, the justification for those delegated powers, whether they should be undertaken by the affirmative or negative procedure, and the effect of those powers on the wider considerations about smart meter roll-out. The amendment addresses the passage of concern in the memorandum relating to clause 1, which is about what powers the Secretary of State will have as a result of the smart meter roll-out extension to 2023. The memorandum states that the power taken in clause 1 also enables the Secretary of State to "remove any licensable activities" added by virtue of the power. It goes on to state that this Government have no intention of using the power in that way, and that at the moment the only licensable activity that could be removed is a revision of a smart meter communication service—the DCC's service.

I appreciate the Government's honest intention when they state that they do not intend to "remove any licensable activities", but although the memorandum suggests that there is only one such activity, that could change over time. Paragraph 19 of the memorandum states that the Secretary of State could remove other existing licensable activities that have licences already agreed, given that they have the power elsewhere to modify licences over and above the DCC's service. As the Committee has already discussed, that seems a power too far for the Secretary of State.

As Labour members of Committee have already indicated, we do not think for a moment that the present Minister or Secretary of State—both of whom are extremely honourable—would seek to do anything that would go beyond the proper exercise of power regarding the extension of time. However, as the Committee has discussed, we are supposed to be legislating for all circumstances. We are not legislating on the basis of our judgment about the goodness and honourability of present company; we are legislating for all time and all purposes. What we put into law must stand up against all intentions of future Governments of whatever colour.

I suggest that although the memorandum contains a statement about the Government's intentions on the use of the power to remove licensable activities, the use of such a power is not actually prevented by anything in the Bill. It is therefore prudent to include in the Bill—this is what the amendment would do—a statement that the Secretary of State should not remove any licensable activities, which in theory they could do by virtue of the power. The amendment would clarify what the Secretary of State should not do, as well as what they can do.

Given our duties and responsibilities as legislators, that prudent course of action would ensure that the Bill is as clear as it can be, and that it gives the Government of the day the right powers on the extension of time, but does not enable them to overreach themselves with those powers and undertake activities that the Committee would not want them to do. I would think that everyone in the Committee could agree to putting this provision in the Bill, because it would in no way fetter the Government's aims for the roll-out; it would simply clarify the framework within which the power can be

operated. I think that would help rather than hinder the process, and therefore I commend the amendment to the Committee.

The Chair: Minister?

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Richard Harrington): Thank you, Mr Gapes. I wondered whether you were looking for someone else to stand. I thought that perhaps there had been a reshuffle without my being told, or something like that.

The Chair: Well, I would not know; that is beyond my powers.

Richard Harrington: It is beyond most of our powers, but I am delighted still to be in position to try to resist the amendment—in a civilised way, I hope—and to reassure the hon. Member for Southampton, Test. As ever, I accept fully the nature and tone of his amendment, because he means exactly what he says. I take a similar approach in reading his amendment and trying my best to consider whether it is practical to agree with what he says or whether there is a way I can accept what he says so that he accepts what I am trying to say. I am conscious that hon. Members are itching to make a lot of progress on the Bill, but I will try to answer his points.

I think that the hon. Gentleman would accept, despite the fact that we are trying to do this in different ways, that the Government are trying to protect the interests of energy consumers in this whole programme. The only current licensable activity is the provision of a smart meter roll-out communication service, so the situation is comparatively simple. Like a lot of things in legislation, it is really more complicated than that, but that is what it boils down to. We have done this to ensure that we have a communications and data system that supports secure, reliable and interoperable services for smart meters. The Government would not remove this service without putting in place an alternative. We currently consider that doing so would not be in line with the Secretary of State's principal objective, for which he or she must use their discretion.

Let me explain the concern from the Government's point of view. In future, the whole smart meter system will expand and become, we hope, exponentially greater than it is now—not just because everyone will have one, but because it will be able to do so many other things that we all want. I am thinking of operations with apps. Perhaps water meters or other devices in people's homes could be applied to it. The current licensable activity may then be redundant, because things will have developed beyond that. In such circumstances, it would not be appropriate, or indeed in line with better regulation principles, to leave in place a licensable activity that is not required in the future.

I hope that everyone accepts that the DCC has a fundamental role in driving the smart meter benefits. I do not currently consider that we would exercise the power to remove licensable activities, but I feel that it is necessary for the Secretary of State to keep that, given that principal objective. I hope that the hon. Gentleman will consider our concerns, just as I have tried to consider his, and agree to withdraw the amendment.

Dr Whitehead: I am not quite sure what that meant. I understand that at present, as the memorandum indicates, there is only one licensable activity that could be removed, and that is indeed the DCC service. The Minister rightly puts it to us that it is difficult to conceive of circumstances in which the Government would decide to remove that licensable activity, but that is not what legislation is about. Legislation is not about whether, on the balance of probability and taking all things into account, including the bona fides of the Government, something that one might legislate on should not be legislated on because it is unlikely to happen; legislation is supposed to ensure that, in all circumstances we can think of, those things that we do not want to happen should not happen.

Although I take on board what the Minister has said—I do not doubt for one moment his bona fides—I do not think that he has added anything to the debate this morning, other than to repeat what was in the Department's memorandum.

Richard Harrington: The hon. Gentleman has been gracious in his comments about me personally, about the Secretary of State and, I hope, about most people who would do the job, but should there one day be an evil Secretary of State who, in the middle of the night, while plotting the destruction of society, realised that they could use this power, which in the scale of things is pretty tiny, how would they use it in so destructive a way that a future Parliament might think, "Oh, I wish we had been stronger in this Bill and that we had the power suggested by the then hon. Gentleman"? I hasten to add that I am not hoping that he will have gone to the great energy supplier in the sky, as we all will at some stage. The serious point is this: were that to happen, what is the bad way in which this power could be used?

Dr Whitehead: A future Secretary of State does not necessarily have to have quite the intents suggested by the Members making non-verbal interventions. I can easily envisage such circumstances. For example, bearing in mind that the present DCC is set up as the subsidiary of a private company—

Clive Lewis (Norwich South) (Lab): A cartel.

Dr Whitehead: Indeed. The DCC was established in a deliberate way. In effect, there was an auction to decide who would run the DCC after it was set up and it was put into the realm of Capita, so the established DCC is a subsidiary of that company. However, if a future Government thought that it was a particularly bad idea for the DCC to be a subsidiary of Capita, or any other company, they might decide that it was worth enduring the hiatus in the roll-out in order to recast how the DCC operates. It is not beyond consideration that such a Government might think, "The easiest way to do this is by taking the licensable activities away from the DCC as it stands"—in its present arrangement—"and introducing new licensing arrangements." Having done that under clause 1, to establish a DCC that would not be a subsidiary of Capita, there might be a different arrangement.

Some Members might think that that Government would be a pretty misguided, and possibly fairly reckless, in putting the roll-out in jeopardy. But the fact that I

[Dr Whitehead]

have set out a scenario in which a Government, acting on a reasonable and rational consideration, might do that—whether or not one thinks it is a reasonable thing to do—indicates that one could easily envisage circumstances, contrary to what the Minister says, in which the power accorded by clause 1 could be implemented for purposes that we might not think would be helpful to the roll-out of smart meters but could easily be undertaken. Therefore, although that scenario is not very likely, having a line in the legislation to prevent it from happening seems to me a prudent way to proceed.

9.45 am

I have not heard from the Minister why that would not be a prudent way to proceed, why it could not be done or why it would in some way jeopardise the integrity of the Bill or have—as I appreciate some amendments do on occasions—equal and opposite effects elsewhere in the Bill that would make the amendment inappropriate. I have not heard an example of anything in the amendment that is non-executable in the Bill. The amendment appears to be in good order, and if we believe that to be the case, the only judgment we should make is whether it adds something to the Bill. In my opinion it does. I cannot really see why it should not be accepted for that reason. It is not a matter of party animus or oppositionism; it is about whether the Bill should be strengthened as has been suggested.

I cannot help thinking that, if the amendment is not accepted, there must be deeper reasons that the Minister has not articulated this morning. I am willing to hear about those other reasons, if there are any, but certainly in this debate, unless a deeper reason is about to arrive, I have not heard exactly what that reason might be.

Richard Harrington: I do not know whether to thank the hon. Gentleman for giving way or not.

The Chair: I think you are responding to the amendment. It makes it a bit more procedural. You are allowed to speak more than once, and we have not yet got to the summing-up speech from Dr Whitehead.

Richard Harrington: I was going to thank the hon. Gentleman for giving way, but I will not now. I am grateful that I am not abusing the system, which I was going to.

I think we have to agree to disagree on this point, because I believe that, given the restrictions in the Bill and everything else, it is a minor point. I accept that the hon. Gentleman is not doing it to bring down the Government or anything like that, because opposition is opposition. I respect him not just for his position but, much more than that, for the person he is. If he wishes to press the amendment to a vote, then I understand that I have not persuaded him. If he wishes me to ponder the matter further, or even to meet him and talk about it, I am perfectly prepared to do so. I think it is making a mountain out of a molehill.

He thinks changing the licensable activity is quite an important thing that needs to be brought before Parliament. Any decision to remove a licensable activity would still be subject to parliamentary scrutiny through the affirmative procedure, but it is ultimately a question of what discretion a Secretary of State should have in the consumer's interest. We could politely agree to disagree on that, but if the hon. Gentleman would like to discuss this further and withdraw his amendment for that purpose, I would respect both things. At the moment, I disagree with him not because we are the Government and he is the Opposition, but because I do not see the significance of the points he is making.

Dr Whitehead: This is not a cosmically important thing, and I agree with the Minister that it is unlikely to change the course of the roll-out, but I say gently that that is not necessarily what we are supposed to do in Committee. We are not supposed just to grade the importance of the things in the Bill and then decide to act on them according to their relative importance; we are supposed to examine the Bill line by line and, between us, suggest ways that it can be strengthened so that it is as good as we can make it when it returns on Report and Third Reading. That means that things may be added to the Bill that are not in themselves important but could be regarded, in the context of the work we are supposed to do in Committee, as a result of us discharging our responsibilities properly.

I am in a bit of a dilemma. I agree with the Minister that this is not a really important thing, but I cannot see for the life of me why it cannot be placed in the Bill so that at the end of its passage it is as good as we, between us, can make it and that it contains things that, although they may not be that important, add to its overall strength. I simply have not heard any reason why that cannot be done. I have heard reasons why the amendment is not that important. The Minister might suggest—and he might be right—that if we put it to a vote we would over-emphasise its importance. However, I am—"annoyed" is not quite the right word—a little concerned that something that can be seen as reasonably obvious, if not as significantly strengthening the Bill, regardless of our party positions or of the position we take on the Bill overall, is rejected in this way. For that reason, I seek to divide the Committee.

Question put, That the amendment be made.

The Committee divided: Ayes 8, Noes 9.

Division No. 1]

AYES

Debbonaire, Thangam	Morris, Grahame
Gibson, Patricia	Smith, Laura
Lewis, Clive	Western, Matt
McCabe, Steve	Whitehead, Dr Alan

NOES

Freer, Mike	Ross, Douglas
Grant, Bill	Tolhurst, Kelly
Harrington, Richard	Warman, Matt
Kerr, Stephen	Watling, Giles
Pawsey, Mark	

Question accordingly negatived.

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss new clause 4—*Conditions of extension of time for exercise of powers—*

'(1) Prior to making any directions during the extended time period provided for in section 1, the Secretary of State shall commission a review which shall consider—

(a) data access and privacy issues arising from the smart meter rollout,

(b) the benefits realised during the smart meter rollout and the scope for greater benefits to be realised,

(c) the effectiveness of the policy framework for future smart metering operations.

(2) The Secretary shall lay the report of the review in subsection (1) before each House of Parliament.'

This new clause requires the Secretary of State to carry out a review of matters relating to the current status of the smart meter rollout.

Richard Harrington: The new clause would make it a condition of primary powers being extended that the Secretary of State carry out a review of smart meter roll-out, and that the review cover the data access and privacy issues, the benefits realised during the roll-out and the scope for greater benefits to be realised, and the effectiveness of the policy framework for future smart metering operations. I will now turn to each area that it is suggested be covered in the review in turn.

In 2012, the Government established a data access and privacy framework to ensure consumers' interests are protected. This framework applies to domestic consumers and micro-businesses. It seeks to strike a balance so that consumer privacy is protected while enabling the proportionate access to data necessary to deliver energy system-wide benefits. For example, the framework determines the level of access that energy suppliers, networks and authorised third parties can have to energy consumption data. It also establishes the purpose for which data can be collected and the choices that consumers have about that. The central principle is that consumers have control over who can access their detailed energy consumption information, except when it is required for regulated purposes, a good example of which is billing.

The framework was welcomed when it was established, and the Information Commissioner's Office, which is the data protection regulator, commented that it felt the framework offered a good level of control and protection for consumers. We publicly committed to carrying out a review of the framework, and intend to do that in 2018. Subject to the extension of the relevant powers, we will then be able to act quickly if there is any evidence that the framework is not delivering against its objectives.

On the second area, the Government are focused on the delivery of benefits and have regularly updated the cost-benefit analysis for the smart metering programme to reflect the latest available evidence. We are also very keen to ensure that even greater benefits can be achieved than forecast. For example, that is why we published our clean growth strategy and made a commitment in it to undertake further research and to trial approaches to using the data from smart meters to provide tailored post-installation energy efficiency advice on heating—the largest part of domestic energy bills—so that consumers will be able to make further changes to reduce consumption while maintaining comfort levels. That will further increase benefits.

We are looking at innovations that build on the smart metering infrastructure more widely, for example through the use of consumer access devices, which will enable greater home automation. I think that that is critical for the future and know that hon. Members on both sides of the Committee will agree—the nirvana is everybody having an app on their phones, knowing exactly what is going on in their house or flat and being able to adjust accordingly their patterns of usage, not just of heating but when they want to put on a washing machine or any other device, to save electricity. In fact, that may be done automatically in the future through algorithms and things that I could not possibly understand how they work, but know will transform people's lives. As we know, the whole smart meter system is to provide the building blocks for that to happen.

In terms of policy framework, the third area that was suggested for review, we have made a public commitment to undertake a post-implementation review of the smart metering programme, drawing on evidence from the roll-out itself and a period after its completion during which smart metering systems will have been operating in steady state. The review will evaluate the overall programme, the realisation of the benefits and the overall effectiveness of the policy and regulatory framework.

10 am

In summary the Government agree—I agree—with the sentiment of the proposed new clause. I hope that my response shows that we are planning actively to review the framework next year; we are focused on the realisation of current benefits and we intend to carry out a post-implementation review in 2021. However, I do accept the shadow Minister's point. There is value in routinely taking stock of progress while this continues. With that in mind, if it is acceptable to the hon. Member for Southampton, Test—I know my previous suggestion on the previous amendment was not, but on this new clause I hope that he will accept that I have thought about what he wants—I will undertake to include as part of the smart meter implementation programme an annual report to go through progress in these areas formally. We would obviously make copies of that report available to both Houses.

Taking a step back to look at clause 1, I want to consider it as a whole. I have considered all the points mentioned on previous days in Committee. It is probably too early in the morning—I do not want to exercise the patience of Committee members—to continue, but I have thought a lot about the meter asset providers, the extension of powers and all those points. I hope that when we continue our discussions on those points, formally or informally, the hon. Gentleman will accept the fact that we have considered all of them in the Bill. Although I have not accepted some of his amendments, I have accepted their spirit, because our goal is a self-sustaining system, governed and operated by industry, with full oversight by Ofgem, delivering benefits to consumers.

I know, having heard the oral evidence—I had heard many of the participants before—a lot more work is needed to ensure the roll-out is a success. The Government have a critical role in continuing to lead the programme, during and immediately after the roll-out, to ensure that benefits are delivered, while informing Parliament, as I have explained.

I hope that given my commitment to report progress on those areas as part of our annual report, the hon. Gentleman will feel able to withdraw new clause 4. I commend clause 1 to stand part of the Bill.

Dr Whitehead: There is not too much more to say on clause 1 stand part, inasmuch as we have undertaken a good examination of the clause. We have made a number of suggestions to strengthen it. Although we had a little fall-out just recently, in general the discussion has proceeded in such a way that we are satisfied that the points we have raised have either been taken into account, explained properly, or given rise to some undertakings about how matters might proceed not within the context of the clause, but perhaps administratively in backing up the clause. Therefore we would not want to oppose clause 1 stand part.

New clause 4 has been grouped with the clause 1 stand part debate. That is sort of the wrong way around, because the Minister has given his assurances about new clause 4 before I had the opportunity to say what I wished to have assurances about, but we will let that one pass and proceed as if it was the other way around. Just to explain to the Committee, new clause 4 is drafted very specifically, again, in the context of the memorandum in which the Department set out the Delegated Powers and Regulatory Reform Committee, where the Department states its justification for taking powers in clause 1. It says:

"We consider this extension was necessary so that the Government can remove any barriers to the roll-out of smart meters which emerged and ensure that benefits for consumers are maximised in the continuing operating of smart meters following completion of the roll-out".

It then states:

"The Government has made public commitments to undertake reviews in the following areas of the smart meter roll-out…data access and privacy to ensure the regulatory framework remains fit for purpose in 2018…benefits realised during the roll-out to assess whether we can do anything to encourage greater benefits in 2019…overall effectiveness of the policy framework post-implementation for future smart metering operations in 2021".

As hon. Members will observe, that is exactly what has been set out in subsection (1)(a), (b) and (c) of our new clause. The commitments to reviews that the Department has already undertaken in principle for the extended period of the roll-out are transferred to the Bill. The Minister has already mentioned this morning his commitment to undertake an annual review that, I assume, would incorporate these particular concerns and considerations.

Richard Harrington: That is a perfectly fair assumption —that is our intention.

Dr Whitehead: I thank the Minister for that clarification. A commitment to an annual report to be laid before both Houses goes a long way towards satisfying our concerns about whether these particular wider commitments should be placed in the Bill. I thank the Minister for his commitment and will not press new clause 4 to a vote.

Patricia Gibson (North Ayrshire and Arran) (SNP): I want briefly to add my voice and that of my party on new clause 4. I know that the Minister will agree that we need continually to reassure consumers that their data are securely and robustly protected in the course of this roll-out. I know that he will agree how important it is to ensure that meters currently installed are always to the highest specification of function and data security.

The Minister will also be concerned—like, I am sure, everybody else in the room—about the evidence that was taken that smart meter network is being installed before its requirements as an internet-connected energy system had been fully determined. We would expect—I know that the Minister will feel this—that the Minister would do everything in his power to ensure that consumers are best protected amid this roll-out.

I impress on the Minister and remind him of the concerns raised in March 2016 in the *Financial Times* that GCHQ had intervened in smart meter security, claiming that the agency had discovered glaring loopholes in meter design. As we move forward with these considerations, I want to impress those concerns on the Minister.

Richard Harrington: I thank the hon. Lady for her comments and am very pleased that GCHQ did that, because it shows how it was included in the process of getting to the security stage that we are at today.

Question put and agreed to.

Clause 1 accordingly ordered to stand part of the Bill.

Clause 2

Smart meter communication licensee administration orders

Question proposed, That the clause stand part of the Bill.

Dr Whitehead: We have talked about the extension period; the second part of the Bill is about administration orders. These might be made in the context of the DCC's failure to operate either because it has gone bankrupt or because its supply of funds dries up or is diluted for any reason and it can no longer continue—it is entirely dependent on the resources it receives from suppliers to operate. A number of clauses in the Bill relate to setting up a procedure to enable the roll-out to continue by recovering the DCC's procedures, if and when in administration, in such a way that the flow of the roll-out is not interrupted. At this stage of the legislation, therefore, we need to concentrate on whether the things put forward—what can and should be done by Government to make that change while at the same time continuing with the roll-out in the unlikely event of administration—are good enough to ensure the roll-out continues and we achieve the purpose of ensuring a smooth passage.

I want to make two brief points, to which the Minister may want to respond. The first is about provisions in the Bill relating to what are unlikely events that probably won't not happen, but conceivably could. It might be prudent to legislate to ensure that we are in a position to do something in the unlikely event of that happening. We had a debate about that recently in this Committee. What we are doing in considering the second part of the legislation is roughly what we were doing in the first part to try and strengthen the Bill. We did not succeed in doing that, but we will not be churlish or childish about that. We will go along with the idea that this is an unlikely event, for which we have to make prudent legislation to ensure that catastrophe does not take place as far as the roll-out is concerned.

The second point is that we are legislating this morning for an event that could occur to an organisation that has been in operation for several years already without this legislation being on the statute book. One might ask, therefore, what was happening in the meantime. Were we operating over a period of time where there was no protection for the smart meter roll-out programme from the possible bankruptcy or administration of the organisation that was essential to the running of the whole operation? That seems to me to be a considerable omission on the Government's part.

Steve McCabe (Birmingham, Selly Oak) (Lab): We seem to have heard a lot in this Bill about these unlikely events that are never going to happen, but for which we have got to take precautions. I remember being told that banks were too big to fail as well. I wonder whether the point my hon. Friend is making is that we have got to a situation where we have a multibillion pound investment in the DCC—all of it coming out of customers' pockets—and yet there is no protection at this moment if things were to go pear-shaped?

10.15 am

Dr Whitehead: My hon. Friend is right. That is the situation at the moment, and that is what the Bill, very late in the day, seeks to rectify. I am not saying that one should not take part in the rectification of that problem. Clearly it should be rectified, and we need legislation that protects us in those circumstances.

I wonder if, as a gateway into this part of the Bill, the Minister might share some thoughts with the Committee on why this has not happened before and why we have had these circumstances for several years. I appreciate that it was before the DCC went live, which was only relatively recently, but the DCC was set up and a lot of money was put into it. All the various arrangements went through, and it was by no means impossible for that problem to arise to date. I am pleased that we are taking this step, but slightly alarmed that we have not done it previously. Can the Minister shed any light on why that was the case? Did the Government simply forget? Was the legislation so difficult to undertake that it has not been drafted until now, or was it not thought necessary to have this protection prior to the DCC being in its present position? It would be useful to have some guidance on what thinking went on before the legislation appeared.

Richard Harrington: Before making a few brief comments, I will try to answer the two very reasonable questions raised by the hon. Members for Southampton, Test and for Birmingham, Selly Oak.

I will deal with the unlikely event point first. The Government have to try to gauge how unlikely an unlikely event is. I hope the hon. Member for Southampton, Test accepts that it is a question of judgment. We have to draw the line somewhere on the level of unlikeliness, and we drew it on the wrong side of what he thinks is unlikely.

Dr Whitehead: The theory of relative unlikeliness.

Richard Harrington: Yes, that is very good. I wondered what the hon. Gentleman did his doctoral thesis on, and now I have discovered it.

It is a judgment call. I hope I made it clear in my previous comments that I do not think his amendment is unreasonable, mad or anything like that; it is just that we have to try to make a judgment, and it is on a different side of the line to his.

The question of why we have not done this before is, like many of the hon. Gentleman's points, very valid. It is one of the first questions I asked officials when considering this. I have been given a note, which I have not read; I will answer from what I think, rather than what I have been told. I asked that very question. I understand that this was consulted on in 2011 by the Department. The official reason—genuinely—is that there is a lot of competition for parliamentary time, and this is the first opportunity we have had to deal with something that is reasonable, but at the highest level of unlikeliness on the unlikely-o-meter, if there were such a thing. There must be an unlikeliness app to gauge the level of unlikeliness.

I personally think this should have been done before. It was probably less important than it is now and going forward, simply because of the scale of use and the containability of unlikeliness. This was the first opportunity I had to introduce the clause on what to do in the event of these unlikely circumstances, and it is important. It is to stop other interested parties putting in administrators. There are always commercial administrators—for example, companies that have not been paid. There is a normal system to do this that still exists, but it does not have the level of control that the Department or Ofgem would have.

This is important. I could spend 10, 15 or 20 minutes of the Committee's time going through the reasons why it is important, but those reasons will be debated later on in the Bill's passage. I hope I have answered the points raised to the best of my ability.

Steve McCabe: I do not want to dwell on this, but I am genuinely curious. When the Minister says that the Department consulted on this and decided that there was no need for this sort of protection or safeguard because of parliamentary time, or whatever reason, who did they consult? Presumably not the customers, who would have been the first to say, "Hang on, we don't like the sound of this."

Richard Harrington: I thank the hon. Gentleman for that comment. Those consulted were stakeholders and so on. I would remind the hon. Gentleman and the shadow Minister that the DCC only went live in 2016. I accept that there would have been a point between 2016 and now that would have been ideal. It is not uncommon to have special administrative regimes in this kind of world—this is the first one for this particular administrator—and it seems obvious for Government or the regulator to have powers basically to override the normal administration system. Given the millions of smart meters around, and given in particular the system whereby they are all electronically talking to each other—which we all want—it would have been negligent for the Government to leave this for another four or five years. It is quite reasonable for this to be the first legislative slot since it went live.

Having said that, I accept that there has been no unreasonable comment in the points made by the hon. Gentleman. There is plenty to discuss in this Bill, and

[Richard Harrington]

everyone would agree that a special administration regime guards against a risk that the licensee might go into normal insolvency proceedings, which is a standard process within the Companies Act 2006 and something that companies do. The reason that this is a level of unlikeliness that makes it really unlikely is that the income side is more or less guaranteed, as we heard in the evidence from the experts. It is prudent, given that these risks could be there, to have safeguards in place. That is what the clause does. These measures all have precedents in other special administration regimes for energy networks and suppliers. The clause is a sensible measure and I commend that this clause stand part of the Bill.

Question put and agreed to.

Clause 2 accordingly ordered to stand part of the Bill.

Clause 3

Objectives of a smart meter communication licensee administration

Steve McCabe: I beg to move amendment 8, in clause 3, page 2, line 34, after "efficiently", insert ", transparently".

This amendment would make it an objective of the smart meter communication licensee administration to operate in a way which would allow the general public to be aware of his functions.

It is probably quite fortunate that this debate follows the discussion that just took place, because the purpose of amendment 8 is to make it an objective of the smart meter communication licensee administration to operate in a way that would allow the general public to be aware of its functions.

We are talking about a situation that is clearly about accountability, albeit one that people think is unlikely. This is a situation in which a massive investment goes wrong and the Minister is forced to set up a special administration regime. In those circumstances, it makes sense for people to know what is going on. It is a matter of accountability for the public, who, as I have said a number of times, are paying for this programme through their bills. It is therefore right that if ever a situation arises in which a smart meter communication licensee administration is in place as a result of a failure of the DCC, that administration should operate in a way that is transparent, open and obvious to Members in all parts of the House and, most importantly, obvious and transparent to members of the public.

Stephen Kerr (Stirling) (Con): How does the hon. Gentleman envisage there being such an event without it being transparent to Members of Parliament and to the public? In what scenario would that be possible?

Steve McCabe: That is a good question, but unless I have misunderstood its wording, the Bill gives the Minister the power to set up this regime but does not impose any requirement to disclose to the wider public, or indeed to someone like the hon. Gentleman, exactly what the Minister is about. That is the very essence of this amendment. Maybe it will help the hon. Gentleman if I give the wider context to why the public needs, at this stage, a transparently operated smart meter communication licensee administration.

The thing we cannot escape, and should not try to, is the huge cost of this programme. It is enormous. In recent correspondence, the Government are on record as saying that the average household is expected to save £11 a year on its energy bills in 2020, rising to £47 by 2030. If I have the figures right, that equates to £300 million off domestic energy bills in 2020, rising to about £1.2 billion by 2030.

The Minister told us earlier that the cost-benefit analysis is regularly updated. I am not sure that is strictly true. It is probably fair to say that the cost-benefit analysis is modified, but to the best of my knowledge there have been two to date. The figures that I am quoting are based on the cost-benefit analysis conducted in 2016, which some of the expert witnesses called into question, as Members will remember. It is possible that the figures were accurate at the time of publication, and the benefits quoted would be welcome, were it not for the fact that the increasing cost of the roll-out falls to the consumer.

If Members recall, Mr Bullen told us that the cost of the smart meter roll-out per household was £13 a year, up from £5 only the year before, when the cost-benefit analysis was conducted. On that basis, the net benefit to the average household lucky enough to have a functioning smart meter that is not in dumb mode is actually minus £2, while those who have not even had a smart meter installed at this stage are paying £13 for the roll-out without deriving any benefit at all. Centrica—the people who own the gas—claimed last week that the costs of subsidising the £11 billion smart meter roll-out programme are just included in their customer bills. They said that, presently, large suppliers see these rising costs as among the main reasons for customer bills going up.

Stephen Kerr: I appreciate the points that the hon. Gentleman is making, but I am not entirely clear how this pertains to his amendment, which concerns an administrative arrangement, should we get into that scenario, which we can hardly envisage, where power companies are failing and so forth. I am not sure I understand the relevance of his comments about those costs to the amendment.

The Chair: Order. I ask for interventions to be brief if possible. Secondly, before the hon. Member for Birmingham, Selly Oak responds to that intervention, I am not sure whether this is the appropriate place to have this debate. We will be discussing the cost-benefit analysis issue in later clauses, and this amendment is about the objective of the smart meter communication licensee administration. Please can we try to have a narrowly focussed debate about the amendment before us, not a general debate that we can have later?

10.30 am

Steve McCabe: I am grateful for your guidance, Mr Gapes, but I was stressing the point that we would not need to know were it not for the fact that this is going to cost so much. If something that costs so much goes wrong—especially when that cost is borne by the consumer—we should fear a situation in which those

who were instrumental in making all the decisions up to that point can be absolved of all responsibility, because the Minister steps in to offer a new regime to protect and safeguard the failed organisation without you, Mr Gapes, or me, or anyone in this room having any idea what happened, what will happen, who will pay for it, and what it will cost. That is the object of the exercise.

I am grateful to you, Mr Gapes, for your guidance about not dwelling too much on the figures, but those figures are considerable and I will certainly seek an opportunity to share some of them with you later in our proceedings, if at all possible. I believe that the public have every right to know those figures, but I am grateful for your guidance on that point.

For the purposes of the amendment, I simply stress that it would be wrong to have a situation where the Minister was forced to take such an action, especially if there is any suggestion that that action could be taken behind closed doors and would not be visible, transparent and available to everyone. It should be open to the kind of scrutiny that I think all members of the Committee would believe essential were an operation of this size to go wrong, land the consumer with an enormous bill and require a special administration intervention.

Matt Western (Warwick and Leamington) (Lab): I rise in support of what I think is a simple and honest amendment that seeks only to underline the need for transparency—that is something we should be stressing throughout the Bill. We could ask whether the words "efficiently" and "economically" really need to be included in the Bill, and of course they do, but likewise we also need the word "transparently".

If I understood correctly, this process started some years ago and we are now legislating for it. A moment ago it was asked why we are doing this only now. That seems a little incredible to someone who walked into this place a few months ago, but be that as it may, we are where we are. What we are picking up from consumers is not necessarily distrust, but there is some confusion out there. Any means by which we can improve the transparency of the programme and provide clarity for consumer and suppliers is surely vital. I support the amendment.

Dr Whitehead: In supporting this amendment, will hon. Members cast their eyes across clauses 2 and 3 that set up the smart meter communication licensee administration, and the special administrative regime—the SAR? We must emphasise what a special circumstance this is. This would be where the body that had been charged with the whole roll-out of smart meters, which had millions of pounds under its guidance, had gone into administration—for whatever reason. As the Minister points out, traditional methods are available for dealing with a company that has gone into administration.

A special administration regime would, among other things, ensure that the special nature of the DCC and its complete centrality to the roll-out was not subsumed under that traditional method of administration, which might cause damage given what the administrator might decide to do with the company if there were not a regime that was carefully worded and sorted out. The administrator might decide that a number of functions that otherwise would have been carried out by the DCC would not be—indeed, we may debate some of those additional functions later. There would be the whole question of the administration of that company being brushed under the carpet, being put in the hands of the administrator and set aside from the public gaze.

A lot of company administrations take place in circumstances of some opacity—that is, it is difficult to ascertain exactly why the company went into administration, the intentions of the administrator or even where the appointment of the administrator came from. It is difficult to find out what the administrator thinks they are going to do with the company concerned. There are whole series of things that, in terms of general company law, ought to be a little more transparent but generally are not; that is how it works as far as company law is concerned.

However, this is a very different circumstance: the entity is an essential public function as well as a company, which might be placed into administration. It is therefore right that, in clauses 2 and 3, we do more than say that we want to make sure that the administration is in the right hands and that nothing happens with the administration that will cause damage to the passage of the DCC as the organiser of the smart meter roll-out. That is what all the paragraphs in clause 3, and some of those in clause 2, are about. They are concerned with the smooth transfer and running of the system. There is not one word about any light that should be shone on what would have happened to that company previously, and what is the public good of the company subsequently, once it comes out of administration.

Steve McCabe: The Public Accounts Committee, the National Audit Office and the Energy and Climate Change Committee have all expressed doubts about the operation of the programme, its transparency and the escalating cost. In such circumstances, if the Minister was forced to use the additional powers because of failure, surely it would be a complete dereliction of duty not to make what had happened obvious.

The Chair: Order. Before the shadow Minister responds, I ask Members again to focus their remarks, if possible, specifically on the amendment.

Dr Whitehead: My hon. Friend underlines the importance of putting the word "transparently" somewhere in clause 3. An event may happen that the public would properly be interested in; they may be concerned about what might happen to them as far as administrative processes are concerned or about the effect on their bills of an event that caused substantial additional money to be spent over and above what had already been set aside. We must emphasise that all the costs that have been set out for the smart meter roll-out—be that the cost of the smart meter, the cost of the advertising campaign or the cost of the DCC itself—will, one way or another, be recovered from customers' bills.

With that in mind, putting in the Bill a requirement for processes to be fully transparent would serve the consumer positively. I support the addition of that single word—"transparently"—to the Bill. I cannot see any downsides to that. It would not in any way impede the process of administration. All the objectives and procedures in clause 3 to ensure that the DCC runs as

[Dr Whitehead]

effectively as possible and protects the roll-out are sound. Inserting the word "transparently" would add to that protection and do nothing to undermine it, so I hope that the Minister will seriously consider doing so.

Richard Harrington: I understand the purpose of the amendment well. On the surface, it seems to be a good thing. Transparency is good anyway, and I will argue that the provision would lead to transparency. It is reasonable to argue that this is an important matter and that we want everyone to know what is going on. We are all here because we are part of a democratic process; I do not think anyone could disagree with that principle.

However, I cannot agree with the hon. Members for Southampton, Test and for Birmingham, Selly Oak because of what the amendment would mean in practice for the administration. Thankfully, none of us have experience of this kind of public, as opposed to commercial, administration—I know that is not quite the technical word—and I accept that. By the way, there will be plenty of legal requirements on the administration, which I will come to in a minute. It is just totally unrealistic for an administrator, given those requirements and all the complexities that it will have to deal with, unlikely though it might be, to spend hours ensuring that the public—I think this is what the amendment would mean—are kept informed of all the administrator's moves, given that administrators have to meet plenty of requirements. I ask the Committee to bear that in mind; I cannot accept what the hon. Gentlemen said. That is not because we are secretly against transparency or anything like that.

Clive Lewis: It is not so much that the administrator would need to keep the public informed of every step they were taking, but that if the public, MPs or parliamentarians or others were interested, they would have access to the information to ensure that lessons could be learned in the future, if they felt that that was a requirement. Rather than the administrator giving out the information, it would be for the public or others to access the information; they would be able to access it.

10.45 am

Richard Harrington: I thank the hon. Gentleman for that intervention. I can see that afterwards, but not in the course of an administration, when there are very complex duties for the administrator to learn, be instructed to learn, and so on. I find this proposal quite difficult in practice; I am quite concerned about the effects of it. I am not concerned about the purposes of it, which I think are very noble. Perhaps I will answer the hon. Gentleman's question in my remarks in a way that is more satisfactory to him; I hope so, anyway. Perhaps it is a victory of hope over logic; I do not know, but we will see.

I confirm for the record that the object in clause 3 is to ensure that the DCC's functions under its relevant licences are performed efficiently and economically, pending the rescue of the company or transfer of its business. However unlikely that might be, as we know its revenues are guaranteed, we are on the Government's side, rather than the shadow Minister's side, of the line on unlikeliness. The intention behind the clause is to ensure the continuity of the smart metering service while minimising the costs incurred. In providing for continuity of services, the benefits of smart meter services are maintained and the costs—financial costs, but also the huge inconvenience that would come from any interruption to smart meter services—are avoided. I do not mean an interruption to the supply of electricity; I am talking about the gauging of how much people are using and, I hope, in the future, more fancy tricks, to allow them to control their costs, supply and everything that we have mentioned before.

Under the Insolvency Act 1986, as modified by this Bill, there is already an obligation for the name of the smart meter communication administrator to be stated on the DCC website; it should also be stated that the affairs, business and property of the company are being managed by that administrator. There are clear provisions setting out the functions of a smart meter communication administrator, including its powers.

As with the energy network operator and energy supplier special administration regimes—the nearest comparable regimes—we would expect the smart meter communication licensee SAR rules to require the smart meter communication administrator to file various documents at Companies House. That would include, for example, a copy of the administrator's proposals for achieving the objective of the smart meter communication licensee administration, which would contain information about the administration. The administrator has to submit regular progress reports. Once filed at Companies House, those documents would be available to the public and would keep them informed about the administration and its progress in the way that I hope the hon. Member for Norwich South meant in his question.

I hope that hon. Members will recognise that information would already be available to the public and other interested parties through the existing procedures to ensure transparency about the administration. I hope that they will consider the points that I have made, because they are important. This proposal implies that the administration process could be helped dramatically by the public's having access to information and knowing what is going on all the way through. I think that it is very important that the public experience no interruption whatever and that the administration is carried out quickly and efficiently. We must not forget that the whole reason for the SAR is to reassure consumers and other stakeholders that their smart meter services and the benefits that arise will be protected, and not interrupted in any way.

I state again that the administrator would be under a duty to manage the company efficiently and economically. When companies such as KPMG, PwC and other big companies act as insolvency practitioners, they do so as part of a regulated profession. All normal insolvencies, and not just special administration regimes, are covered by that. I therefore ask the shadow Minister and the hon. Members for Birmingham, Selly Oak and for Warwick and Leamington to consider what I have said and to withdraw this very reasonable amendment. I fully commend the purpose behind the amendment, but I think we are already fulfilling that purpose in this provision and with the existing rules on administration.

Steve McCabe: It is a devastating blow to hear that the Minister cannot bring himself to accept the word "transparent", but in the circumstances I do not think

that we would gain very much by pressing this to a vote. I hope that the Minister will seriously reflect on what has been said, because the circumstances in which he would have to exercise this power would be a massive failure and, almost certainly, a massive loss to the public, and I do not think anyone would be comfortable thinking that there had been any attempt to hush that up or push it to one side. I hope that he will reflect very seriously on why it has been raised. I do not wish such a failure to occur at all, but I am very clear that if it did, I would be one of the first at the front of the queue saying, "What on earth went on here?" I do not think there would be any gain in pushing it, so I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Dr Whitehead: I beg to move amendment 14, in clause 3, page 3, line 32, at end insert "within the context of the full services offered by the DCC".

This amendment requires that any regulations about prioritisation of activities following the DCC going into administration would have to take into account the context of the full services offered by the DCC.

The amendment refers to clause 3(6), which enables the Secretary of State to make regulations specifying the activities to be undertaken in a smart meter communication licence under administration, subsequent to the DCC having been placed in that administration. The circumstances set out in subsection (6) are essentially about the extent to which the Secretary of State may say to the administrator, "You are now in the position of administrating this failed company. Because of the arrangements necessary for the roll-out of smart meters, you should make sure that, at the very least, the minimum amount of activities are carried out to enable a smooth roll-out of smart meter services."

As far as I understand it, the reason for the subsection is that as the DCC evolves it will undertake the initial core services provided in respect of the roll-out, but it may also undertake a number of additional elective services to facilitate the roll-out. It is those additional elective services that the Department mentions in the memorandum it placed in front of the regulatory Committee, stating:

"In the unlikely event that the DCC becomes insolvent, it may be necessary to prioritise certain activities of the DCC…We are not yet in a position to set out the prioritisation of the DCC's services, so soon after the start of live services…and in advance of the development of elective services. We believe that this will be possible ahead of the completion of the rollout when demand from suppliers for DCC to provide other services could be expected to have materialised."

The Department then states:

"Once we have determined the prioritisation and how it should be done, we would prepare a statutory instrument that would be subject to annulment in pursuance of a resolution of either House of Parliament."

I will come to that particular point in a moment.

The point of those particular passages, concerning clause 3(6), is that the Department is not clear what the prioritisation of the DCC services might be under administration, because the Department is not yet clear, so close to the start of live services, what range of services it would face under administration—because those services have not yet fully emerged. The Department would therefore want to determine how the prioritisation should be done, and to prepare a further statutory instrument, which would give form to that prioritisation once that is clear.

That is all very reasonable, except that something does not appear in 3(6) as it stands, or within the policy intent section that the Department has put forward as far as the regulatory Committee is concerned: any provision requiring that the services that the administrated DCC carries out at that point be as close as possible to the full range of services that were there before. It is distinctly possible for the Secretary of State to make regulations that would, for example, remove all elective services that had been developed by the DCC and concentrate just on the core services—the minimum that would enable the roll-out to limp home under the terms of administration.

The amendment seeks to give a context for what the Secretary of State may do by regulation, as far as administration is concerned, and it states that that context should be the full services offered by the DCC. Obviously, those would be the full services offered by the DCC at the point it went into administration, including those elective services which we do not fully know about at the moment. Clearly, if the DCC, prior to its administration, had developed a wider palette of services than the very minimum, it would have done so for particular reasons. I imagine that those reasons would be to assist the roll-out. Therefore, as a desideratum, under the terms of the administration, the DCC should operate post-administration as closely as possible to how it operated prior to administration.

The Secretary of State should consider, under those circumstances, what might be impossible or very difficult to achieve under a process of administration, not a wish for various services to be discontinued or downgraded. Obviously, I imagine that the Secretary of State would want to make sure that the future regulation was indeed as close as possible to what the DCC was doing prior to when it went into administration, but I would suggest that is not entirely the point. It is necessary to put in the Bill a framework for what the Secretary of State may do under regulation, and that should be to have serious regard of the services in place prior to administration and not to be tempted, as it were, to put forward regulations or give instructions subject to regulation that did not produce an outcome post-administration that was as good as it had been pre-administration.

11 am

Richard Harrington: As with the last amendment, I perfectly understand this amendment's purpose: to require that any regulations that the Secretary of State lays down about prioritisation of DCC activities following administration

"would have to take into account the context of the full services offered by the DCC."

I understand the purpose, but I will do my best in the next few minutes to argue that there would be no effect on the policy. The precise intention of the proposed regulations is to specify the activities carried out by the DCC to which the smart meter communication administrator must give priority, and how that should be done, taking account of the full range of activities that the DCC is carrying out under its licences at that time. That is exactly what we are trying to do; we are just trying to ensure that the functions of the DCC under its licences are performed efficiently and economically, as I said before.

[Richard Harrington]

The administrator may face a judgment on which DCC services to prioritise; it is quite normal for an administrator to do that. The most appropriate judgment will depend on the circumstances, but that may not be clear to the administrator on the day that they take over the administration, and there may be a trade-off, as there are in administrations, between prioritising different services.

The clause to which the amendment relates gives the Secretary of State the power to make the regulations specifying which activities carried out by the DCC under its licences must be prioritised by the administrator, and how that should be done. As the smart metering programme develops beyond the foundation stage—the stage we are fundamentally preoccupied with as the purpose of the roll-out—we expect the number of services provided by the licensee to increase. The licensee can, for example, offer bespoke services for suppliers and others, building on the smart metering programme. I know that is what we all want. As part of that, consumers may be able to choose to give third parties permission to access their data, allowing a much wider range of energy-related services to be developed: products, advice, switching suppliers, tariff choices and all that sort of thing.

Smart metering data may also be used, where the consumer so chooses, as part of taking that service—for example, in supporting home energy management services and even for non-energy-related services, such as smart washing machines that do the laundry at different times so it costs less. That is not directly to do with the supply of energy but with the consequences that matter to most people: "How much will it cost and how can I save money?" I suppose it could be used to identify faulty or inefficient appliances, or to support carers, through a service that allows family members to be updated about changes in routine. That sounds futuristic, but there are many interesting things that could come from the programme if we take the big picture for the future.

It might be in the interests of consumers and the wider energy market for the administrator, if that day comes—I do not think it will—to prioritise core services. If we keep smart metering working, the other stuff is all very nice, but for a time it could not be a priority, in order to keep the core system going. I believe it must be the role of Government to guide the administrator in that respect, because of the speed that must be taken into consideration within an administration. The precise aim of the regulations is to provide future flexibility to ensure the full range of activities carried out by the DCC at that point can be taken into account. That prioritisation will support the continuation of services in the overall interests of the public.

I believe the Bill delivers the noble aims of the hon. Gentleman's amendment. I hope he will consider what I have said and the explanations I have given, and will agree to withdraw the amendment.

Dr Whitehead: In the context of the fact that what is set out in *Hansard* has some legal bearing, the Minister has this morning set out in terms fairly similar to the amendment the scope of clause 3 and the Government's intention in regulations made under subsection (6). I do not want to press the amendment. I think it is agreed that we aim to ensure that the DCC's circumstances prior to administration should be repeated as closely as possible post-administration for the general good of the roll-out. That is what I understood the Minister to say, and I hope he will confirm that.

Richard Harrington: I confirm that what the hon. Gentleman just said is precisely the case. I tried to be as clear as possible, and I am glad that he, like me, respects that things in *Hansard* are meant to be as they are said. I can clear that one up.

Dr Whitehead: I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Dr Whitehead: I beg to move amendment 20, in clause 3, page 3, line 33, leave out subsection (7) and insert—

'(7) A statutory instrument containing regulations under this section may not be made unless a draft of the instrument has been laid before and approved by a resolution of each House of Parliament."

This amendment would apply the affirmative procedure to regulations under Clause 3.

This is the bad bit of clause 3. As stated before, the clause envisages the Minister making regulations to determine which of the DCC's services should be prioritised to continue after administration. We have already agreed that those services should, in principle, be as close as possible to what they were prior to administration.

The Minister has responsibility under subsections (6) and (7) not only to make provision about how the smart meter communication administrator gives priority to specified activities but to produce a statutory instrument to that effect. It is envisaged that the negative procedure would apply to the statutory instrument. Subsection (7) states that the instrument is

"subject to annulment in pursuance of a resolution of either House of Parliament."

That means that the statutory instrument could be prayed against and annulled if a negative resolution is placed before the House. If no one objects to the instrument, it goes through.

I set out in a previous Bill Committee why, in general terms, adopting important regulations by negative means is a bad idea. It is important that the House has proper sight of regulations and a proper opportunity to debate them and decide on them. As I am sure hon. Members know, the negative resolution procedure is a source of considerable dissatisfaction in the House. Under the negative resolution procedure, if we wish to proceed subject to annulment, as the legislation suggests, we have to enter a prayer against the instrument, which is in the form of an early day motion which suggests that it should be annulled; that it has been noticed, and we do not like it—or at least want to have it debated.

The prayer itself does not stop the passage of the negative resolution in the House. Indeed, there have been occasions when a negative resolution has gone into law and a number of months later it turns out that it is debated in Committee. The time lapse is sometimes because—not to put too fine a point on it—the Whips on the Government side have not conceded that there should be a time-slot available for a debate on that resolution. A prayer is essentially asking, "Please can we have a debate to annul this resolution?"

It is essentially in the gift, in this instance, of the Government Whips, to make time available for that to take place. It is not necessarily going to take place within the period of objection or even within a reasonable period after the objection has been made. So there are circumstances in which, before any light is shed on the negative resolution in the House, that resolution has been in force for quite a period of time. The debate that then takes place in the House is merely an observation on that negative resolution. It is not clear in House procedure whether even a vote for annulment at that point actually annuls that resolution, because it has already been enforced and is in operation.

Negative procedure should be used to place an instrument on the statute book only where the subject is purely technical in content and has no policy implications or wider concerns. In this instance, from the debate we have already had this morning, I suggest that regulations would do rather more than operate in only a very technical set of circumstances. There would be possible policy implications. As the Minister said this morning, Members would want to see that the Government's intentions for the operation of the DCC had been carried out in regulations and would probably want to have a say on those regulations. An affirmative procedure seems to be absolutely the right way to do that.

I remain generally concerned about the extent to which legislation going through the House seems to allow for such negative resolutions. I am afraid that this looks like another instance of that. It is not necessary for the proper passage of a regulation through the House. What the Government want to do to make sure that the regulations work could be perfectly well achieved by a positive procedure; it would not hold it up, it would simply mean that it had to have some light shone on it and would be properly debated in Committee before it proceeded. For that reason, I suggest that it should be subject to the affirmative procedure, and that is what the amendment seeks to do.

The Chair: I remind Members that we have to finish at exactly 11.25 am this morning, so, if there is to be a Division, it might be preferable to have it before then. However, I am, of course, in your hands.

11.15 am

Richard Harrington: Thank you, Mr Gapes. I am sure Opposition and Government alike will take your warning on a Division. I hope it is not necessary because I hope to explain in the time allowed, as I have done with other amendments—some successfully and some less than successfully.

I can see clearly that the purpose of this amendment would mean that in the unlikely event of insolvency—we all agree it is unlikely—any regulations that we will need to bring forward about the administrator's priorities, which we have discussed before, would need to be approved by a resolution of both Houses. I can see the principle behind that, and it is a noble one, but I would argue that because of the speed required and the technical nature of these regulations, it is appropriate to use the negative procedure, which the hon. Member for Southampton, Test does not like.

I made points in the debates on the previous amendments about the choices that the administrator has to make and the speed with which they have to make them. It is considered reasonable—and I know the hon. Gentleman would agree—that the Government should guide the administrator in respect of this. That is why we are asking for these powers, so that the Secretary of State can make regulations specifying which activities carried out by DCC must be prioritised by the administrator and how this should be done. The question boils down to the nature of these provisions, which I argue are technical and therefore suitable for this kind of procedure.

The DCC has core services that provide energy suppliers and others with around 110 service requests. Again, I would ask both Mr Gapes and the Committee to consider the practicality of the affirmative system. This covers a range of areas, for example the provision of pre-payment services, the management of security credentials, changes of supplier events, the technical configuration of devices, access to network—I could go on, there are 110 of them. It would be necessary to review these services and prioritise them against new services, which I have mentioned before and which may be offered.

I argue that the regulations made under clause 2 would be largely administrative and technical in nature, focused on the specifics of implementation and acting to narrow rather than add to policy scope, entirely to protect consumers' interests. We need to act promptly to achieve this, so that the administrator has appropriate direction. I believe that the procedure proposed will provide Parliament with sufficient oversight for supporting this ambition. I hope, not just because of time constraints but because I think it is the right thing, that the hon. Gentleman will understand our concerns and agree to withdraw his amendment.

Patricia Gibson: I want to speak to this amendment in relation to parliamentary scrutiny. In my party, we would welcome any enhancement of parliamentary scrutiny, but I need to draw the Minister's attention to a number of concerns, and I am worried about time.

I am speaking about the need for enhanced scrutiny because I do not believe that the amendments allow for sufficient scrutiny, for reasons I will go on to discuss. Energy UK and Ofcom both state that aggressive selling is wrong. I am sure we would all concur with that, but that is little comfort until aggressive selling is properly addressed. That is going on and that is why more and enhanced scrutiny is so important.

It is my understanding that Ofgem has the power to fine energy companies up to 10% of their annual turnover if they fail to meet their licence conditions.

Stephen Kerr: I am a little confused about the hon. Lady's line of approach because I cannot see the relevance of what she is saying. It no doubt has lots of merit—I do not dispute that—but I cannot see its relevance to the amendment.

Patricia Gibson: I draw attention to these points because the amendment is about enhanced parliamentary scrutiny. I am simply pointing out the need for further enhancement of such scrutiny, and I wonder what the Minister thinks about that—he is looking at me bewildered.

The Chair: Order. I do not want us to go too far from the amendment. The hon. Lady is focusing on the specific amendment, but I hope we do not go too far in interventions.

Patricia Gibson: I am simply pointing out that Ofgem has the power to fine energy companies up to 10% of their annual turnover if they fail to meet their licence conditions. One relevant licence condition is for each energy company to install smart meters in consumers' homes by the end of 2020, and failure to do so incurs a financial penalty for those energy companies. In respect of parliamentary scrutiny, perhaps that is what gives rise to the aggressive selling about which I and many others are concerned. What does the Minister think about that?

The Chair: Order. The hon. Lady needs to get back to the specific terms of amendment 20.

Patricia Gibson: I simply say that there are a number of concerns about how smart meters are being rolled out.

The Chair: Order. Those concerns can be addressed later in the debate. I wish to focus specifically on amendment 20.

Patricia Gibson: I will raise my concerns at another time.

Richard Harrington: I am happy to talk to the hon. Lady about her consumer concerns, but I agree with your ruling, Mr Gapes, that what she has said is not relevant to this amendment, which is about technical considerations, and parliamentary scrutiny of those, in the event of the demise of the DCC and a special administration regime being put in. The point is not relevant to the amendment, but it is a valid concern. I am happy to discuss it with her informally, if not formally now.

Dr Whitehead: The Minister has alluded to a particular point about regulations under this clause, which relates to the speed that would be necessary to act under the circumstances of administration. That is a defence of the idea that there should be a negative resolution; presumably, the fact that Parliament at that time did not want to proceed to an annulment would allow things to be done speedily. I understand that, so on that narrow point we will not press the amendment to a vote this afternoon.

I draw the Minister's attention to our next debate about a similar set of circumstances that concern a negative resolution, and to which that defence cannot be mounted. I hope that he will take his own words from this morning into account when we return this afternoon to debate the relevant clause. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Ordered, That further consideration be now adjourned. —*(Mike Freer.)*

11.24 am

Adjourned till this day at Two o'clock.

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

SMART METERS BILL

Sixth Sitting

Tuesday 28 November 2017

(Afternoon)

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not later than

Saturday 2 December 2017

The Committee consisted of the following Members:

Chairs: Mike Gapes, † Mrs Cheryl Gillan

Carden, Dan *(Liverpool, Walton)* (Lab)
† Debbonaire, Thangam *(Bristol West)* (Lab)
† Freer, Mike *(Finchley and Golders Green)* (Con)
† Gibson, Patricia *(North Ayrshire and Arran)* (SNP)
† Grant, Bill *(Ayr, Carrick and Cumnock)* (Con)
† Harrington, Richard *(Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy)*
† Kerr, Stephen *(Stirling)* (Con)
† Lewis, Clive *(Norwich South)* (Lab)
† McCabe, Steve *(Birmingham, Selly Oak)* (Lab)
† Morris, Grahame *(Easington)* (Lab)
† Pawsey, Mark *(Rugby)* (Con)
Quince, Will *(Colchester)* (Con)
† Ross, Douglas *(Moray)* (Con)
† Smith, Laura *(Crewe and Nantwich)* (Lab)
† Tolhurst, Kelly *(Rochester and Strood)* (Con)
† Warman, Matt *(Boston and Skegness)* (Con)
† Watling, Giles *(Clacton)* (Con)
† Western, Matt *(Warwick and Leamington)* (Lab)
† Whitehead, Dr Alan *(Southampton, Test)* (Lab)

Jyoti Chandola, Clementine Brown, *Committee Clerks*

† **attended the Committee**

Public Bill Committee

Tuesday 28 November 2017

(Afternoon)

[Mrs Cheryl Gillan *in the Chair*]

Smart Meters Bill

Clause 3 ordered to stand part of the Bill.

Clause 4

Application of certain provisions of the Energy Act 2004

2 pm

Dr Alan Whitehead (Southampton, Test) (Lab): I beg to move amendment 16, in clause 4, page 4, line 9, at end insert—

"(ba) in paragraph 33(3), for "negative" substitute "affirmative"

This amendment would apply the affirmative procedure to the use of provisions of Schedule 20 of the Energy Act 2004 under this Act.

The amendment, which I alluded to this morning, relates to a further clause in the Bill to allow regulations to be made by the negative procedure, not the affirmative procedure that I think hon. Members would prefer in most circumstances. Clause 4(1) deals with the possibility that, as smart metering develops, the licence holder of the Data Communications Company could be a non-GB company. The clause sets out what would be the conditions of administration of the future DCC in the event that the company that was the ultimate owner was not a UK company; separate arrangements might have to be made for it. In the memorandum from the Department for Business, Energy and Industrial Strategy to the Delegated Powers and Regulatory Reform Committee, which I have mentioned previously, the procedure that is set out in the clause is described thus:

"We consider that the negative resolution procedure is justified for providing for what would be detailed modifications narrowly focused on particular provisions of insolvency legislation and their specific application to a non-GB company. Affirmative resolution procedure or new primary legislation is not considered to be appropriate given the nature of the changes."

No particular reason is given for the fact that affirmative legislation is not considered to be appropriate. A further consideration that is new in this clause—it was not the case with the previous clause that we discussed in relation to affirmative resolution procedures—is that, as the memorandum states at the beginning of the paragraph, legislation on what would happen if the owner was a non-GB company would be undertaken using a Henry VIII power. We have not yet discussed Henry VIII powers in this Committee, although we discussed them in a previous Committee in which the Minister and I were involved. On that occasion it was generally concluded that the use of Henry VIII powers in legislation was a bad idea. As I am sure hon. Members will know, Henry VIII powers essentially allow primary legislation that is on the statute books to be amended by secondary means. As a general principle in this House, one would have thought that enabling the Government to do that—depending on what bounds have been placed on the procedure—is potentially a worrying development. Without recourse to the Floor of the House and a full debate on the legislation, a Government can, if that legislation contains Henry VIII clauses, use secondary legislation to alter what Parliament had previously discussed during the full process of Second Reading, Committee, Report and so on, through both Houses of Parliament. The Government can amend that legislation through a regulation that substitutes for a piece of the primary legislation that was discussed previously by the House. That seems a bad principle of legislation, and if it is to be used, it should be used extremely sparingly and only in emergency circumstances.

This Bill is generally quite benign and innocuous, but surprisingly it contains a Henry VIII power to amend the Insolvency Act 1986 and the Energy Act 2004 and its schedule by secondary legislation. In this instance, the proposal to allow that is not only suggested in terms of providing detailed modifications on particular aspects of the insolvency rate legislation by secondary legislation, but it enables a Henry VIII power to be put through Parliament on the basis of a negative resolution which, as I said this morning, would give Parliament very little scrutiny of the whole process.

This morning we discussed the difficult conditions that might apply if the DCC became insolvent, and the need for speed and urgency might conceivably justify passing such a measure through the House by negative resolution. We cannot, however, really apply those arguments to this clause because this is not something that will need to be done as a matter of urgency. As the memorandum states:

"The earliest the licence is expected to be re-tendered and could potentially be transferred to a non-GB company would be 23 September 2025."

What we are considering is not exactly an urgent process, and neither is it in parallel with the ideas put forward when we discussed the previous clause. This is a Henry VIII power that proposes to amend primary legislation by means of a negative procedure where no urgency is envisaged—it is a simple as that. In those circumstances, it seems to me, and even given the Minister's own words, that there can be little justification for taking through these legislative procedures with a negative resolution. That is why the amendment substitutes the word "affirmative" for "negative". Bad though we think Henry VIII powers are generally, if there is to be such a power, it should at least be passed by affirmative, rather than negative procedure, and I hope that the Committee will accept the amendment.

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Richard Harrington): I thank the hon. Gentleman for his comments. Henrys were discussed in the Committee that considered the Nuclear Safeguards Bill, including under the illustrious chairmanship of the then Mr McCabe, whom we must now refer to as the hon. Member for Birmingham, Selly Oak. It was interesting to hear contributions from the hon. Gentleman not just about Henry VIII, but about Henry VII, the French king, I seem to recall, who I looked up on Wikipedia that very evening.

Dr Whitehead: I need to put a correction on the record in that case, Mrs Gillan, because I did mention Henry IX, the French king. It was, in fact, Henry IX of Bavaria. I was mistaken at that point, but there was indeed a Henry IX and he lived in Bavaria.

The Chair: Thank you very much, Dr Whitehead.

Richard Harrington: I must formally apologise and hope that the *Hansard* writers are able to expunge the fact that I got the wrong Henry in the wrong country at the wrong time. In no way was it meant as any form of insinuation, implication or anything improper about the historical knowledge, or indeed, any knowledge, that the hon. Gentleman has. I must apologise for any offence caused. If this were outside in the world where one gets sued, I would have to make a donation to the charity of his choice, but I do not think the difference in Henrys is quite the point he was making.

It is a true and interesting point, which is relevant to so much legislation in this place—many things far more politically contentious than what we are discussing here today. Where it is appropriate for Government to have powers that are delegated is a big issue. I know that in the European Union (Withdrawal) Bill that is going through at the moment this has become quite a big cause célèbre, and it is one with which I have a lot of sympathy. I will try before you rule me completely out of order, Mrs Gillan, to talk about the specifics of this particular Bill, which, by powers of the Henrys, is quite limited in the powers it asks for.

The powers we need are of two types: first, as the hon. Gentleman gracefully and properly conceded, in some cases there is the need for urgency; a Secretary of State of whichever political complexion may need to be able to act quickly. Secondly, there is the question of the general type of statutory instruments, which are dealt with in the affirmative or negative way.

Stephen Kerr (Stirling) (Con): Is there any precedent for using negative resolutions in relation to non-UK companies that have been awarded licences in any facet of our economy?

Richard Harrington: I cannot tell him about companies generally, but I know within energy, which is my field, that there are precedents within the Energy Act 2004. My hon. Friend the Member for Finchley and Golders Green next to me has told me the actual point—in fact he has not, he has told me exactly what I have just said. I was trying to be clever and remember the clauses, but I know it was the Energy Act 2011, which set up other special administrative regimes. This is a common system for SARs. There is ample precedent for that and it would seem very strange, for no particular reason, to give this special administrative regime a different rule to others. I hope that the hon. Gentleman will take point that into consideration.

The SAR has largely been formulated with GB-registered companies in mind, since a GB company is the current Smart Meter Communications Licence holder; that is true. However, there is a possibility that at some point in the future the licence holder could be a non-British company. He is right to say that the earliest the licence is expected to be re-tendered is September 2025. I know that delegated legislation moves slowly, but I accept his point that this is not a speed matter. I could not even try to argue in front of him or yourself, Mrs Gillan, that this was the case.

Although a number of adaptations to the special administration regime catering for non-GB companies have already been made by the Energy Act 2004 applied by this Bill, we may find that further modifications are needed to account for a non-British company becoming active in the provision of smart meter communications services.

2.15 pm

In effect, clause 4 extends the application of the existing power and procedure in the Energy Act 2004 in relation to the network operator SAR to the Smart Meter Communication SAR, so there are two there. As we have said, there is a precedent for this provision in the Energy Act 2011 in relation to the energy supplier SAR.

We suggest that the negative resolution procedure provides Parliament appropriate oversight for introducing what would be very detailed, narrowly focused modifications. They are very narrowly focused, as these powers should be. In fact, even the Bavarian powers referred to by the hon. Gentleman in the last Bill Committee were probably quite narrow. Actually, they may well have included execution and things; I do not really know what Henry IX got up to in Bavaria. They would probably have involved delegated legislation of a different nature. In this case, these are detailed modifications, narrowly focused on particular provisions of insolvency legislation, and their specific application to a non-British company. I would argue—he may choose not to accept the argument—that it is important that we are consistent in the procedures we apply to the exercise of these powers in different energy SARs. It does not make sense to have one that is different from the others. I do hope that the hon. Member for Southampton, Test will understand my concerns about his amendment and agree to withdraw it.

Dr Whitehead: The Minister tried quite hard, but did not actually say anything new, other than what is already on the delegated legislation memorandum that I myself read out to the Committee. That was essentially the Minister's defence of the procedure he is seeking to introduce.

I might have anticipated some other, particular reason—in addition to it not being urgent—for putting this forward as a negative resolution. There apparently is not one, other than that it is fairly narrowly drawn and relates to the Insolvency Act 1986, but nevertheless it amends the Insolvency Act 1986 by secondary legislation and negative procedure. That is the point that I was making: it is not the narrowness of it, but the procedure by which the legislation is amended. This is an important principle for legislation in general, and I am therefore afraid that I do not think we can withdraw the amendment this afternoon. We would like to see this an affirmative procedure. In the absence of any good ideas that might arise in the next few minutes—a bit like the EU negotiations on the border—we may have to divide the Committee on this.

Richard Harrington: I hope the hon. Gentleman knows that I do try to accommodate wherever I can. To disagree with the argument I have put forward—which is "the other ones are like that"—would be basically to say that the other ones are wrong. I cannot see any rationale—perhaps the hon. Gentleman will enlighten me—why one should be different from the other energy one. To me that is the important point; to him, I do not think that it is.

I would ask him to reconsider. If it is really important to him, rather than put it to a vote—which he is welcome to—he could sit down and discuss it with me before Report, when he would still have the option to do what he wanted. I am very happy to do that, but it seems to me to be an administrative matter and, to him, it does seem to be a point of principle. It if is a point

[Richard Harrington]

of principle, I cannot really accommodate him because I have to show the precedents, but there may be other things we could explore. If that were a suitable option, I would be very happy to do it.

Dr Whitehead: I am afraid that we must press the point.

The fact that there is some bad legislation on the statute book does not mean there should automatically be more. I am afraid that that does not take us much further forward.

Question put, That the amendment be made.

The Committee divided: Ayes 8, Noes 9.

Division No. 2]

AYES

Debbonaire, Thangam	Morris, Grahame
Gibson, Patricia	Smith, Laura
Lewis, Clive	Western, Matt
McCabe, Steve	Whitehead, Dr Alan

NOES

Freer, Mike	Ross, Douglas
Grant, Bill	Tolhurst, Kelly
Harrington, Richard	Warman, Matt
Kerr, Stephen	Watling, Giles
Pawsey, Mark	

Question accordingly negatived.

Question proposed, That the clause stand part of the Bill.

Richard Harrington: I have discussed the clause extensively and will not repeat my points other than to say that the powers are absolutely necessary. Hundreds of pages of things, such as quorums of meetings, have to be dealt with in this way. We propose to extend the application of the existing power, for which there is plenty of precedent, in relation to the energy supply company special administration regime.

Dr Whitehead: There is a new clause that refers effectively to what we are considering here, but I am happy for it to be discussed separately, even though it has a substantial bearing on whether a non-GB company might be a successor to the DCC. As far as this stand part debate is concerned, I have no further comments other than that I will save my fire for later when we discuss the new clause.

Question put and agreed to.

Clause 4 accordingly ordered to stand part of the Bill.

Clause 5 ordered to stand part of the Bill.

Clause 6

Modifications of particular or standard conditions

Steve McCabe (Birmingham, Selly Oak) (Lab): I beg to move amendment 10, in clause 6, page 5, line 20, at end insert—

"(aa) the public; and"

This amendment would require the Secretary of State to consult the public before making a modification to particular or standard conditions of gas or electricity licences when these powers are being used in connection with the smart meter communication licensee administration provisions.

No doubt you have observed, Mrs Gillan, as will have members of the Committee, that there are some similarities between this amendment and amendment 8 to clause 3, which we discussed earlier. They are part of the effort I have been making to ensure that the public have a slightly bigger voice in what happens in the programme, particularly in the event of something going wrong with it. I mentioned earlier the number of groups and organisations that have expressed anxiety, and these include the Public Accounts Committee, the National Audit Office and the Energy and Climate Change Committee. I was particularly struck to see that Centrica itself had reached the stage where it thought the cost of the programme should be met from general taxation, rather than a charge on the customer. That led me to wonder.

As I hope I have indicated throughout, I do not hold the Minister responsible because I appreciate that he was bequeathed the current state of affairs by his predecessor—but I wonder if the Minister believes that, if this were a Treasury programme, it would have been allowed to continue in its present form for this length of time, with the escalating cost. I would be very curious to hear his response —if possible; I am not trying to put him in a difficult position. The Minister did tell us earlier about one of the first questions he asked when he arrived in the Department and he went on to explain that he had some doubts about the information he was being given. I am really curious to know what he felt when he first encountered the programme and whether he was confident that all was well with it, because it seems to me that there are grounds for some doubt. I want to refer to the cost-benefit analysis, on the basis that the 2016 analysis was significantly revised downwards. We have never had an explanation for exactly why that was the case. It is probably reasonable to guess that it is partly about the delay in the roll-out, but the way things are going at the moment, with delays in the roll-out and escalating costs, we could end up in a situation where the benefit for the customer turns into a big fat negative. It seems to me that it would be a bit remiss of us not to pay some attention to that.

I do not know if I have got this wrong, but it looks to me as if, every way we turn, there is only one person footing the bill for any aspect of the programme. The Minister tells us that the energy suppliers can be fined if they do not achieve the roll-out, but presumably that means another cost that gets passed on to the customer. I would be grateful if the Minister could tell us whether he envisages any protections to ensure that, were he to use his powers to fine the supplier for failing to comply with the roll-out deadline, that would simply not be, in effect, yet another charge imposed on the customer. Certainly, as a customer and as someone who represents lots of constituents who are customers, I would like to know if that is the case and if that is what I am being asked to support today. It would be reasonable to know. As far as I understand it, the power to fine is up to 10% of turnover. Perhaps the Minister can give us some clue as to what that works out at per customer—funnily enough, I would expect that it is quite a tidy sum of money.

In the past, the Government have said that they would intervene to make sure the benefits of the roll-out were realised, if they believed the costs were being passed on to the customers to an unacceptable extent. In the context of the amendment, is the Minister happy that the current escalation in the costs is acceptable? At what point does he think his Department might be moved to intervene?

We are repeatedly asked to recognise that the DCC is unlikely to fail and that everything we are being asked to undertake here is simply on the basis of extra protection in the event of failure, but what I am saying is—

2.30 pm

The Chair: Mr McCabe, I am loth to interrupt you when you are in full flow, but the cost-benefit analysis is in new clause 11, which is going to be debated later. The focus of your speech should be on the text of this amendment. I do not mean to cut you off in full flow, but I think you understand what I mean.

Steve McCabe: Perish the thought that you would cut me off in full flow, Mrs Gillan. I was about to conclude by saying that the reason why I have laboured the point about the cost is that that seems to be the essential public interest. The programme has been designed so that the last people to have any say in what happens are the public, who are picking up the tab. The point of the amendment is to give the Minister an opportunity to redress what I assume was an oversight; I cannot think of any other reasonable explanation why the very people who are supposed to be at the centre of the programme have absolutely no say, and are not consulted—or considered, it would appear—in any way at any stage of the process.

The Chair: Just to reassure you, Mr McCabe, you will have the opportunity to visit this point briefly when we discuss new clause 11. I think you will find that a good place for it.

Richard Harrington: Many of the points made by the hon. Member for Birmingham, Selly Oak had to do with the general costs passed on to customers in the electricity market, a small part of which involve the smart meters that we are discussing. The justification for smart meters, as far as I am concerned, is ultimately to give customers a control over their electricity bills that they do not have now. Now they have one choice, which is to move. It is a good choice, and one that I have exercised myself, but compared with what they will get out of smart meters, it is crude.

I am not making light of the costs charged—this amendment is not about the general costs—but I hope that they will be small fry compared with the huge savings that they will create over the years, although the costs of installation have unquestionably gone up; I will not pretend that they have not.

I will try to deal with the amendment generally. I made a note of the hon. Gentleman's questions while he was speaking, as you would expect me to do, Mrs Gillan. He asked about the fines that can be levied. I point out that the fines are levied by Ofgem rather than by the Department via the Secretary of State. By the way, I was most impressed and surprised to hear the hon. Gentleman quote Centrica and its complaints as an example to all of us. Apparently, it did not want to bear the costs of smart meters or charge its customers for them; it wanted to pass them on to the general taxpayer.

Grahame Morris (Easington) (Lab): The Minister's defence is that lots of the powers rest with the regulator, Ofgem. However, the explanatory notes say that the Energy Act 2008 and later Acts have given the Secretary of State powers to veto any proposals by Ofgem to consent to a number of things, including the transfer of the DCC licence, which we discussed earlier. He already has extensive reserved powers.

Richard Harrington: To continue with the comments of the hon. Member for Birmingham, Selly Oak: if British Gas was fined 10% of its turnover, in theory that would be passed on to its consumers. In practice, of course, that would make it so uncompetitive that all its consumers would move somewhere else. The purpose of these measures is not the fines; it is all the things that happen before the fines to make suppliers comply.

Technically, the hon. Gentleman's point is correct: in theory, all costs go on to consumers, just as in general Government finances all Government expenditure goes on to the taxpayer. I do not think the point is that relevant, but I cannot disagree with what he said other than to say that the fines are not a tool for compliance; they are the ultimate response.

It is true that Ofgem administers the programme and the legal requirements are on it to take all reasonable steps to ensure that households and small businesses have smart meters. The fine is for Ofgem to decide. I remind the hon. Gentleman, before I move to the substance of the amendment, that we have to consider the net benefits as well as the costs. Every single consumer who has a smart meter is making savings on their bill from day one, so experience shows. The real prizes are for the future: the information the meter gives and the change in behavioural habits that happens surely make this worthwhile.

It is not appropriate or feasible to change the policy to move the cost on to the general taxpayer, but it is for us to monitor the situation carefully. With volume, the cost will go down. Compared with many other costs in the generation and supply of gas and electricity, the smart meter bill is quite small given the price of the physical SMETS 2 meter, which, as we have discussed in previous sessions of the Committee, is lower than the SMETS 1 meter's, and given the cost of the installation and administration that goes with it, which is the same for SMETS 1 and SMETS 2.

I return to the specifics of the amendment. The Bill allows us to reclaim the administration costs that effectively come from the end user via the companies—that is true. It allows the Secretary of State to make such modifications to the licence conditions, where he considers it appropriate to do so, in connection with the special administration regime. The key point is that the clause requires the Secretary of State to consult affected licensees and such other persons as he considers appropriate prior to making modifications to licences. The licence modifications envisaged under this power have been drafted and a version has already been made available along with the explanatory notes to the Delegated Powers and Regulatory Reform Committee and to the public via the parliament.uk website.

[Richard Harrington]

The licence conditions try to allow the administration costs to be recouped from the industry insofar as there is a shortfall in the property available for meeting the costs. I accept that, in any business, recouping something from the industry involves recouping it from the customer in the end, which is the point I conceded to the hon. Member for Birmingham, Selly Oak. In the crudest sense, that is true of purchasing anything: the cost of the manufacturer, importer or distributor in any form of good or service is met in the end price. That is bad unless consumers have the choice and the ability to easily switch to a supplier that does not have that incumbence, as is the case here.

I have always envisaged that when we formally consult on those modifications in due course, the consultation will be published. If it is helpful to the hon. Member for Birmingham, Selly Oak, I am happy to provide him and everyone else with an undertaking that the consultation will be publicly available and addressed to the public, as well as to the other consultees involved. On the basis of that undertaking, I hope the hon. Gentleman will withdraw the amendment.

Steve McCabe: The Minister made a very helpful offer at the end. He says that every single consumer is making a saving, but I repeat that that is not true if the smart meter is in dumb mode. People are not making a saving in those circumstances.

Stephen Kerr: The consumer with a dumb meter may very possibly make a saving; I give myself as an exhibit. I changed suppliers. My meter is no longer smart—I grant the hon. Gentleman that—but I have made a saving, because I had a smart meter in the first place.

Steve McCabe: I congratulate the hon. Gentleman on his wisdom and semantics. Clearly, in those circumstances, the saving he is making is not to do with the smart meter, but with his judgment in switching supplier—that is the saving he has made.

Stephen Kerr: It is because I had a smart meter that I was able to make the saving in the first place.

Steve McCabe: As I do not live anywhere near Stirling, I concede that up there, the canny wisdom of the inhabitants is such that they almost certainly have found a way of screwing the best possible deal out of the system. Unfortunately, as somebody who represents the humble folk of Selly Oak, I encounter the people who do not do quite as well out of the programme—hence my desire to represent their interests.

The essence of the amendment is to try to shed light and ensure that the public have a greater understanding of what is going on. I feel that that is absent. If the Minister says that he is going to share the information, that is good enough for me. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Steve McCabe: I beg to move amendment 11, in clause 6, page 6, line 22, at end insert—

'(15) Prior to making modifications under this section the Secretary of State shall commission an independent evaluation on the potential impact the modifications available to the Secretary of State to secure funding of smcl administration could have on consumer energy prices and shall lay the report of the evaluation before each House of Parliament."

This amendment would require that, before considering modifications to ensure funding of smcl administration, the Secretary of State must seek independent evaluation of the impact such modifications would have on consumer energy prices.

Steve McCabe: Thank you, Mrs Gillan. *[Interruption.]* If I could find my notes, I would be doing absolutely fine; I will have to call on the assistance of the hon. Member for Stirling at any second now.

The Chair: I am sure that the Committee will be perfectly happy to allow you to hunt for the correct notes. I think we have all been there, but there is only so much time.

Steve McCabe: The purpose of the amendment is to ensure that any potential modifications are subject to an independent valuation. The reason why I ask the Committee to consider this is relatively simple. The Committee will recall that the Minister told us earlier in the proceedings that he thought some people—may be even some Members—were a little cynical about the DCC. I am not sure that people are necessarily cynical, but I think it is important for a programme in which there are already seven or eight world-first technological developments, including device level interoperability and a separate communication system, to highlight some of the substantial commercial and operational costs in play.

I am sure that the Minister has been doing his homework and I hope that he can provide a bit of insight to the Committee into what he foresees as the risks and difficulties in the months ahead. When I was pursuing the issue of meter asset providers in an earlier sitting, I think the Minister said—I wrote it down at the time—that he regarded the role that these people were playing was "a failure", but he thought it was a technical failure that he hoped would be changed within months by the technical interoperability changes that he was planning.

I am not sure that I believe that is absolutely accurate. It seems to me that MAPs are an issue affecting not only SMETS 1 meters, but the roll-out of SMETS 2. The danger relates to the deemed rental—the charge that the MAP people make to the supplier for the first arrangement. When someone makes the smart move, like the hon. Member for Stirling, to somewhere else, the owner—the MAP—may then say, "We are going to change the basis of rental," and the deemed rental costs will go up.

2.45 pm

It has been suggested that that is a particular deterrent for some of the smaller suppliers, which, I am advised, have made a presentation to BEIS on the subject. If the issue is not addressed, the danger is that the deemed rentals will prevent the success of the DCC project, and therefore the Minister's ambitions and the wider aims. I do not know whether the Minister is in a better position today to tell us how that is going—he has been generous in his offers to consult with, meet and talk to people—but BEIS's plans for the enrolment and adoption of SMETS 1 meters are supposed to be with us before the end of this year. As I look at my little Christmas calendar, it seems to me that the days are ticking away, and I was wondering where we have got to.

The amendment's purpose is, I hope, relatively straightforward. It is designed to protect customers and prevent the potentially large costs of smart meter communication licensee administration from being passed from one to the other. One of the expert witnesses we heard from claimed that the suppliers providing the many DCC SMETS 1s were doing so at 10% of the money already spent by the DCC. That is a huge amount of cash, so we cannot take this lightly.

If I have understood it correctly, this is the situation we find ourselves in. Clause 7(1) and (2) states that the modifications can be made using the powers in clause 6 to raise the prices that the licence holders charge their customers until we reach the point where they have got enough money to pay for the smart meter communication licensee administration.

Effectively, this is about where that money is being transferred. It would not make sense for the Minister to make that judgment or to encourage anyone else to do so without some kind of independent analysis of what is happening. I assume that the Minister does not know what the cost of a smart meter communication licensee administration scheme will be; I would not expect him to. In the unlikely event of a catastrophic failure, he may be the person in the driving seat who is forced to make these changes, so it seems to me that the cost of any such administration and the impact it will have on the consumer and therefore on energy prices should be properly evaluated with a pretty good degree of oversight. That is the purpose of the amendment.

I do not expect the Minister to agree to the amendment with open arms, but there is nothing in it that undermines what he is trying to achieve. All it is trying to do is to ensure that the rest of us know what is likely to be involved if we get to that stage.

Dr Whitehead: My hon. Friend the Member for Birmingham, Selly Oak made a very good case for this amendment, to which I want to add only the question of what is happening throughout the roll-out process. My point relates to the cost of the process and the cost-benefit analysis. There will be a better opportunity in discussing a later clause to go into that in greater depth. For the purposes of this particular amendment, the act of funding an administration without knowing the amount involved, which will inevitably go on to customers' bills, could result in a further deterioration of the cost-benefit arrangements in the context of the process as a whole.

We see already a number of areas in the August 2016 cost-benefit analysis. Page 15 of that analysis sets out how a whole series of areas reduced their net present value by substantial amounts, sliding away from the previously positive cost-benefit finding, with an overall reduction in net present value of some £500 million.

We may well be in for further considerations as more cost-benefit issues arise, and as the programme unfolds we could be in the position of considering the statements made about the benefits to the public of smart meters overall. Let us not forget that the initial cost-benefit analyses looked very rosy compared with the programme's predicted cost. One could argue that although there may be higher consumer bills to cover the programme's implementation, the benefits to the customer, consumers and the country as a whole would be considerable.

I will quote from an academic paper entitled "Vulnerability and resistance in the United Kingdom smart meter transition": the authors describe the expected combined total cost of the programme as being "at least £11 billion", or more than £200 per household. It adds:

"Even the marketing campaign inspires awe, with £100 million committed over a five-year duration of the program, convincing Barnett"—

an academic authority—

"to estimate that it is the biggest advertising campaign in the world in the 'next five years.'"

All these costs will go on customers' bills, one way or another, and will be subject to that cost-benefit analysis as it comes through. In the event that administration is required of the DCC, it seems essential for us to know the impact of that administration on total bills to the public, and the impact on the net benefit. There might be circumstances in which the DCC goes into administration, is rescued in the manner suggested in the Bill, is put forward on a different basis and ends up being a net cost benefit to the public. But, apparently, we do not know the likely cost in such circumstances or what the benefit might be, and we do not have any mechanism for appraising that against what else is in the cost-benefit analysis.

The purpose of the amendment, admirably crafted by my hon. Friend the Member for Birmingham, Selly Oak, is to do just that. It would not stop the Minister from doing anything in particular; it is simply saying, "Have a good mind to that overall cost-benefit situation. Make sure you are clear about the costs and benefits of that process. Make sure that that gets reported and sees the light of day as far as the public are concerned." That seems to me to be a sensible coda to put in the process that does not in any way put a brake on it. I think the whole Committee could support the amendment.

Richard Harrington: I thank the hon. Members for Southampton, Test and for Birmingham, Selly Oak for their contributions. Clause 6 grants the Secretary of State the power to make modifications to licensing conditions when he or she considers it appropriate to do so in connection with the special administration regime for the smart meter communication licensee.

The licence modifications envisaged under the power are already drafted and publicly available. They allow the costs of administration—however unlikely we agree such an event to be—to be recouped from the industry where there is a shortfall in the assets it gets back to meet the costs. As the hon. Members for Southampton, Test and for Birmingham, Selly Oak have said, it is hard—indeed, almost impossible—to estimate the cost of administration up front, and I fully accept their point that there cannot be a blind process or an open cheque; a firm of accountants should not be able to do what they want, when they want, and then charge for it.

One reads about insolvency operations in the press and sometimes one gets the impression that the costs of the administration are more than the insolvency achieves. However, I think that is very unlikely in this case, simply because of the guaranteed revenue stream and all the things we have been through before. The point made in moving the amendment is right: we should try to understand what the costs would be.

[Richard Harrington]

It has been estimated that the DCC has cost billions, and that is basically everything aggregated over the period. To put the issue in perspective, it projects its annual costs to be £67 million in 2019-20. Obviously, a significant part of the administration costs would pay the ongoing costs while the business is kept going to get more revenue and find a buyer. Those are already planned for; they are not new costs. In layman's terms, new costs would be the fees for accountants and lawyers to deal with the actual physical administration itself. Those new costs are not to do with the actual running of the business, and I believe them to be limited. On the issue of scale, I cannot see the administration costs being disproportionate to the annual costs or the huge amount of set-ups.

The key point of the amendment is that the hon. Member for Birmingham, Selly Oak and the shadow Minister feel that we should try to estimate the costs and that a lot more knowledge is needed and should be made available to the public. When the Government come to formally consult on the modifications, which they will in due course, the consultation document will provide an assessment of the potential scale of the cost that might need to be recouped from the industry. That can only be an estimate, because no one knows the exact figures, but there must be comparables. I suspect that the accountancy firms and other relevant parties, such as a regulator, will put in their estimates. I am very happy to provide that assessment in the consultation document. The responses that come in should be very helpful.

On the scale of cost, the assessment will need to take a variety of factors into account. Part of that is the running costs of the licensee and an estimate of the special administration cost. We will take advice from relevant parties—including the independent regulator, Ofgem—when providing the estimate of the potential scale of the cost. I undertake that the consultation on the licence modifications will be published and that we will invite comments from energy consumers as well as other representative bodies. One of the questions that we will expressly ask is whether the consultees agree with the assessment that we are laying out in the consultation. I undertake that, prior to the licence modifications being made, I am happy to make available to both Houses of Parliament the Government's response to the consultation, which will report on the conclusions on the estimated potential scale of costs.

Having considered those points, I hope that the hon. Member for Birmingham, Selly Oak will withdraw the amendment.

3 pm

Steve McCabe: Again, the Minister has been quite helpful. We need to remember that we are talking about a circumstance where there has been a catastrophic economic failure of the DCC. That is why the Minister would be in that position. It would inevitably be—in part, at least—because of doubts about the system, resulting in escalating costs. It would be against a background of an ongoing dispute about SMETS 1 and SMETS 2 meters and the whole question of interoperability, and it would of course then feed into the question whether the meter asset providers were also adding to the cost because of the new role in which they found themselves. That is why we would be in that situation.

In such a situation, I certainly would not want to be the Minister putting my name to something without having some reasonable evaluation of what exactly had happened; how much the cost was likely to escalate; and whether or not this thing was turning into a white elephant. It seems to me that that it would be pretty necessary to do that.

If the Minister is confident that the information he will glean from the consultation and that he will make public will be enough to provide him and his colleagues with the cover they might require if they ever find themselves in that situation, I am happy to accept his judgment. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 6 ordered to stand part of the Bill.

Clause 7 ordered to stand part of the Bill.

Clause 8

MODIFICATIONS UNDER THE ENTERPRISE ACT 2002

Question proposed, That the clause stand part of the Bill.

Dr Whitehead: We are overrun with Henrys again this afternoon: there are more Henrys in clause 8. I have not tabled an amendment because the question of amendments to Henry VIII clauses has been tested, but the Committee should be aware that clauses 8 and 9 are substantial Henry VIII clauses. Both seek to make regulations by negative procedure. The clause to which I drew attention earlier is therefore not an accident; it is part of a theme that runs right through this Bill and that theme ought to be looked at.

We could have a debate about the justification for the procedure in clauses 8 and 9. Frankly, I think they have been written to make the Government's life easier. That is not a sufficient reason to justify the enactment of legislation. I hope that I can recruit the Minister on future occasions for what I might call a crusade—

Richard Harrington: Wrong Henry.

Dr Whitehead: Different Henrys. I hope to recruit the Minister to drive such arrangements as far as possible out of our legislative procedure. I appreciate that there are circumstances in which they are necessary, but they do not apply to clauses 8 and 9. I want to register my concern about what is in the Bill, but I will not take the matter further at this stage.

Richard Harrington: I have carefully noted the shadow Minister's comments. I would call this a minor piece of Henrying—not a Henrietta but a Henryette. I think we disagree on the scale. The powers are very limited and very necessary. I accept the good spirit in which the shadow Minister made his comments, but the powers are necessary for the reasons I have already given. We disagree, but I thank him for his good grace and his acceptance that I have made the arguments before, albeit unsuccessfully as far as he is concerned.

Question put and agreed to.

Clause 8 accordingly ordered to stand part of the Bill.

Clauses 9 and 10 ordered to stand part of the Bill.

Clause 11

SHORT TITLE, COMMENCEMENT AND EXTENT

Richard Harrington: I beg to move amendment 17, in clause 11, page 9, line 19, at end insert—

"(2A) Sections *(Modification of electricity codes etc: settlement using smart meter information)* to *(Date from which modifications of electricity licence conditions may have effect)* come into force on such day as the Secretary of State may by regulations appoint.

(2B) Regulations under subsection (2A) are to be made by statutory instrument."

This amendment gives the Secretary of State power to bring NC8 to NC10 into force by regulations.

The Chair: With this it will be convenient to discuss the following:

Government new clause 8—*Modification of electricity codes etc: settlement using smart meter information.*

Government new clause 9—*Modification under section (Modification of electricity codes etc: settlement using smart meter information).*

Government new clause 10—*Date from which modifications of electricity licence conditions may have effect.*

Government amendments 18 and 19.

Richard Harrington: I find myself in the rare position, in any Committee, of moving an amendment. I usually spend my time responding to amendments, but I shall do my best because these amendments and new clauses are important. They refer to half-hourly settlement.

Before I set out the detail of each new clause, I will, if I may, set out the broader context in which the proposals apply. Smart meters, as we have explained throughout the Committee stage, are a critical foundation for the development of a smart energy system, and provision of the relevant functionality is a core part of our programme. I explained on Second Reading, and have done so again since, my and the Government's vision, which I think is commonly held: in time to come, when we consider history, the current roll-out of smart meters will be seen as a small part of that programme, providing individuals in their homes and small businesses with more flexibility and information. Everyone will accept that, in the modern age, the old-fashioned system of meters, which were predominantly read by estimation, with the gas or electricity man—they were men in those days—coming occasionally with their brown overalls and torch to do a reading, is totally unacceptable. Most people I speak to still have that system at home, despite the fact that everything else they have—their televisions and computers and so on—is of a completely different era.

Half-hourly billing will provide the platform for that kind of flexibility. I would not argue that people will suddenly wake up and think, "I'm going to change my electricity and gas all the time by pressing a button", but I do foresee situations in which people will have that kind of flexibility, through their phones, and where they will subscribe to sophisticated services continually whizzing around the whole of the UK and beyond to find the cheapest point of any particular time of supply. That will allow people to choose when their appliances are switched on or off, when they are used, and whether they are necessary.

Under previous clauses we have talked a lot about the costs of smart meters and the administration—the DCC—which is basically the big software interface, but let us not forget that the idea is to reduce system costs by what I hope will be tens of billions of pounds by 2050. The Government's smart systems and flexibility plan, published in July 2017, set out a number of actions that will build on the smart meter roll-out and deliver a smarter energy system for consumers. That includes the half-hourly settlement, which will help deliver benefits to both consumers and the energy system, by providing commercial incentives on the suppliers to develop and offer time-of-use tariffs, which they have not really had to face before.

As I have explained, such tariffs enable customers to choose, when energy is cheaper, to reduce their bills and the costs of the future energy system. That will help make the energy system more resilient, because as we move towards an increasingly low-carbon generation mix, people will want to make more of those kinds of choices. Smaller suppliers—I should not mention my supplier by name, but I am sure many of them do this—already enable people to tick a box electronically in order to choose to receive energy from a particular renewable source. That is a tiny part of the total array of options available to people, as is half-hourly billing.

Ofgem has already delivered changes to provide more cost-effective settlement arrangements for suppliers that want to offer those tariffs, but that is only the first step. We believe that moving to market-wide half-hourly settlements will help deliver the full benefits of the smart meter roll-out. A market-wide approach will also ensure that any necessary consumer protection can be implemented effectively.

Steve McCabe: This is a genuine inquiry born out of curiosity. The Minister is making a perfectly reasonable case. Why has the amendment been tabled at this stage, and why on earth did we not hear anything about the issue on Second Reading? The Minister is making a very good case—I am not disputing that—but it sounds like an afterthought. Could he explain how we have got into this position?

The Chair: Before the Minister responds to the intervention, I have had a request from members of the Committee to allow the gentlemen to remove their jackets if they so wish, and I am minded to allow that. If you wish to remove your jackets, please feel free to do so.

Richard Harrington: Although it is in your power to decide on the jacket rule, Mrs Gillan, I personally think that people should keep their jackets on. That is probably why I will never be Chairman of a Committee.

The Chair: I am sure you would not want to make any Member who wishes to remove their jacket uncomfortable.

Richard Harrington: Certainly, the next time I appear before Mr McCabe in his capacity as Chairman, I hope that he will not be as liberal as you on the dress codes.

The Chair: Let us return to the amendments.

Richard Harrington: The hon. Gentleman asked a valid and important question, and I thank him for his preliminary support. He asked why this Government amendment was not included in the first place. I take full responsibility for that. The original intention was

[Richard Harrington]

that it should be a separate piece of legislation, but I took my chance with this Bill. As those who were involved on Second Reading will know—I think that most members of the Committee were present—it came very quickly. I took my chance in that slot and I thank everybody for voting in support of Second Reading, which is why we are here today, and I also took my chance to table this amendment.

The issue went through pre-legislative scrutiny in 2016, I think—the exact date is in my notes—and I hope that it is non-contentious. I hope that the hon. Gentleman will accept that the clumsiness of its being a Government amendment—I think that is what he was referring to—is not because of any tricks or because we are trying to hide anything. I took my chance. It seemed like the right thing to do and it seemed non-contentious. Given what is going on in both Houses of Parliament at the moment—there is a lot of legislation to do with Brexit—I thought, rather than hope to get another slot, it would be better to take my chances.

I apologise that the process has not been as seamless as it should have been, but the hon. Gentleman asked me a straight question and I have tried my best to give him a straight answer. I will probably be told off by quite a lot of people for putting it like that, but that is exactly how it is. I hope that hon. Members on both sides of the Committee will accept that explanation in good faith, because this is a really good thing to do.

3.15 pm

Ofgem committed to take a decision on it and on how to implement a market-wide half-hourly settlement by the second half of 2019. We are not saying in this amendment that it will happen like that, straightaway—that is bad for *Hansard*, clicking my fingers. It will not happen instantaneously, but it gives Ofgem the power to get on with it when it judges that the time is right—Ofgem said it wanted that, by the way. Ofgem is working closely with industry, consumer groups and others to ensure that the reforms are done in the most effective way, to deliver the best outcomes for customers.

However, these reforms will require changes to a number of industry codes, involving a level of co-ordination that is expected to be challenging under the current industry code processes. In addition, under the existing procedures, industry parties are ultimately responsible for delivering the reform. On the basis of previous significant code reviews, we have concerns as to whether the reforms will be delivered in a timely way. To explain in plainer English, in effect, under the existing codes, the suppliers themselves could delay the implementation of what they may not want—some will and some will not—in this half-hourly billing. The amendment is a way of reinforcing Ofgem's powers but also of making the procedure happen more quickly and not giving industry the right to delay it for quite some time. That is a very worthy thing to do, because the consumers will be the big beneficiaries.

New clause 8 introduces new powers to allow Ofgem to deliver market-wide half-hourly settlements more swiftly and smoothly than under the existing process, without it having to rely on the industry code processes to the same extent. That will ensure that the benefits to consumers of these new tariffs—remember, it will be products and services enabled by smart metering, all of which we have discussed—and half-hourly settlements will come sooner. The new clause provides that these powers may only be used to deliver half-hourly settlements and they expire after five years from entering into effect. Alongside this, new clause 9 sets out the procedural framework that Ofgem must follow when it seeks to exercise the powers proposed in new clause 8. They include consulting relevant parties on proposed modifications and following impact assessment procedures—I know they are very popular with hon. Members, particularly among the Opposition—before any changes can be made.

New clause 10 provides a mechanism for Ofgem where it can demonstrate that it is justified to reduce the 56-day standstill period between confirming a change to industry licence conditions and the change taking effect. Reducing the 56-day standstill period will enable better co-ordination of code and licence changes when they are made in tandem. Incidentally, the power requires Ofgem to explain why it considers a shorter standstill to be necessary—it will have to justify it—and it will still have to consult industry on the proposed alternative standstill period. This requirement to consult will allow parties to make representations to Ofgem, which Ofgem must take into account, and to ensure that licence changes are not imposed more quickly than 56 days without justification. They have to be justified. As with new clause 8, these powers also only apply in the context of delivering half-hourly settlement and they expire five years after they take effect.

Returning to new clause 11, amendment 17 provides that the new powers conferred by new clauses 8, 9 and 10 come into force by regulation. As I said, they have an expiry period, and the intention of the amendment is to reduce the risk that the powers expire before the changes have taken effect. Finally, amendments 18 and 19 amend the long title of the Bill to reflect the proposed inclusion of new clauses 8, 9 and 10.

Mark Pawsey (Rugby) (Con): The Minister has given some accounts of why these clauses are being introduced at this stage. Has he consulted the energy companies, Ofgem and the other bodies that are referred to, to ensure that they are aware of the amendments to this Bill?

Richard Harrington: Yes, I can confirm to my hon. Friend that there has been widespread consultation. The amendments are very well spoken about in the industry and they will not come as a surprise at all. In fact, the general reaction is that the industry is very pleased that we have managed to introduce them with an act of pure opportunism of getting them through parliamentary scrutiny—assuming that we do—not as a standalone piece of legislation but as an important amendment.

Dr Whitehead: I am in some difficulty here, inasmuch as what the Minister said about the content of the Government amendments is sound and clear. Indeed, they make an addition to the Bill and take us forward on getting ready for some of the benefits of smart meters, such as half-hourly settlements. However, as he indicated, this is effectively a separate Bill that has been lowered into the Smart Meters Bill and attached to it as Government amendments. He quite candidly stated that he took his chance—fair enough—to put it in the Bill, but it creates problems, some of which are at the very least technical, and some of which are possibly of a far wider nature.

As my hon. Friend the Member for Birmingham, Selly Oak pointed out, none of this was mentioned on Second Reading. We went into Second Reading on the basis of the long title of the Bill, which was very restrictive. Indeed, I counselled a number of my colleagues who wanted to table wider amendments to the Bill that the long title prevented that. I said that it is a closely drawn long title, and we are required to stick to what it says. We have done that in this Committee. We have had a good debate about a number of issues within the terms of the long title, but there is a range of issues that hon. Members would very much have liked to discuss, and for perfectly proper reasons relating to the long title it has not been possible to discuss them in this Committee.

Once we got through Second Reading, we found that a procedure has been used that I am not aware has been used regularly—if at all in recent years—for a piece of legislation: changing the long title of a Bill during its passage. That is a very rare procedure in this House. I refer to the authority of Wikipedia—I say that for what it is worth. The Wikipedia people say:

"In the United Kingdom, the long title is important since, under the procedures of Parliament, a Bill cannot be amended to go outside the scope of its long title. For that reason, modern long titles tend to be rather vague".

This one was not vague, but amendments have clearly been introduced that are outside the scope of the long title.

There are some precedents, albeit not from this Parliament but from associated Parliaments whose precedents nevertheless have some relevance to this Parliament through the processes of the Privy Council. In Australia, a Department wished to amend a Bill whose title was "A Bill to amend the XX Act, and for related purposes". My note, which is a drafting direction from Parliamentary Counsel, states that:

"The proposed amendments were not related to the subject matter of the Bill, but would have amended an Act administered by the relevant Minister. The Deputy Clerk advised that if proposed amendments fall a long way outside the subject matter of the Bill, it could be considered a misuse of the House's powers for a motion to be moved to suspend the standing orders. Accordingly, the amendments were not able to be included in the Bill."

A version of suspending the Standing Orders has been undertaken in this House. Amendments 18 and 19 actually add some new words to the long title of the Bill, so apparently, by magic, things that were outside the scope of the Bill are now inside the scope of the Bill.

The Chair: Order. Dr Whitehead, may I just help you with your peroration? If any of these amendments were outside the scope of the Bill, they would not have been selected for debate. I hope that comes as some comfort to you.

Dr Whitehead: Thank you, Mrs Gillan. I was coming to that precise point.

Steve McCabe: I do not have any argument with what the Minister is trying to do, but I am intrigued by whether or not a precedent is being set. Is it my hon. Friend's understanding that if this can occur in this situation, there is no reason why in the future, on any Bill—Private Member's Bill, or anything else—a Member could not seek to change the long title of the Bill and therefore introduce additional components to the Bill that were not part of the original intention of the legislation?

The Chair: Order. Before Dr Whitehead answers that intervention, I have taken advice and I understand that it is all in order to proceed in this fashion.

Dr Whitehead: Thank you for that clarification, Mrs Gillan. Indeed, in order or not, the conclusion we seem to have to reached is that my hon. Friend is right: this does appear to suggest ways in which Bills that have not been considered on Second Reading in a certain light can simply have their direction changed at a later date by the long title being widened by particular amendments that are forthcoming after Second Reading.

Douglas Ross (Moray) (Con): I am sorry, but I am a new Member and slightly confused. I am hearing positive comments about what the Minister has proposed, but also concerns raised through Wikipedia, with mention of magic and all sorts. Is there not a worry—one that I would have—that this opposition from Labour Members might stop reasonable measures, such as those that the Minister has put forward, coming in the future because the precedent seems to be that Labour will oppose something even though there are good reasons for these proposals and they will enhance the Bill, as I think Members agree?

Dr Whitehead: It is not a precedent that Labour will oppose it; it is a precedent that this particular arrangement has been put before us. We are saying that we ought to be clear that this is a precedent. Whatever we may think of the merits of the amendments as they are described, the way of doing legislation in this House may have been significantly altered by what is effectively some form of precedent.

Douglas Ross: But it may have been significantly altered for the good of the Bill.

Dr Whitehead: The hon. Gentleman could argue that we can dispense with procedure and just get good things through this House. Clearly, that would not be a terribly good idea because of how we need to structure our legislation.

I can see that the hon. Gentleman is a little concerned about the relationship between what everyone in this Committee can agree in terms of the wording of the amendment—

Clive Lewis (Norwich South) (Lab): I believe the expression is, "The road to hell is paved with good intentions".

Dr Whitehead: Indeed, my hon. Friend puts it more succinctly.

It is important not only that we do good things in this House, but that we do good things in the right way so that, in those circumstances where there might not be such good things coming forward, we are protected from doing those less good things in the wrong way. Whether or not it is technically in order, my contention is that it appears to be a very strange way of taking a piece of legislation through the House.

3.30 pm

Furthermore, even if it were thought that changing the long title was fully in order—clearly we have received guidance that it is in order, albeit a very rare and odd event—one might think logically that if we are taking forward amendments to a Bill that does not have the

scope in its long title to do what they propose, we ought to discuss those amendments after the long title of the Bill has been changed, so that those amendments are put in order.

This afternoon we are doing things in a great big mélange of one group of amendments, some of which deal with the substance of the change, which we can agree on, and some of which deal with procedural change. It seems logical to me that procedural change has to take precedence over the substance of the change. A logical procedure would be that if the Government decide that they wish to change the long title of the Bill during its passage, they should make the case why that should be so. They should put the change to the long title in place in amendments. We can then consider whether the amendments that come forward with the new long title in place are in scope or not.

The position we have at the moment is that two amendments are potentially in scope because they change the long title. However, they have not yet changed the long title because they have not been agreed.

Stephen Kerr: I am also a new Member and a bit confused. The hon. Gentleman's objection seems to be not about the substance of what the Minister has brought forward, but that he does not like the way in which it has been done. On that basis, surely the shadow Minister is not prepared to sacrifice the substance of what is being proposed, on the basis of a procedural question of how many angels are dancing on the head of a pin.

Dr Whitehead: Forgive me, Mrs Gillan. It is not about angels dancing on the head of a pin; it is an important issue about the procedures of the House. I can see that the hon. Gentleman is puzzling over whether we would "sacrifice the good" of what is before us because of concern about a procedure. That is not a position that the Opposition have put ourselves in; it is a position that we are all in because these amendments have all been grouped together when they refer to two different things, one of which is a procedure and the other of which is substance.

As far as the substance is concerned, the hon. Gentleman may rest assured that we think the substance is good and we do not wish the Bill to be sabotaged because we have concerns about how those good things came to be, but I think the hon. Gentleman will clearly understand that if that procedure is taken as a usual state of affairs in this House, without anybody drawing attention to it for the future, there may in future be circumstances under which someone wishes to introduce a much worse series of amendments than the one that we have today. We know, because the Minister was clear about it, that another Bill was effectively grafted on to this Bill. I can understand the reasons why the Minister wanted to do that.

Steve McCabe: Is it fair to say that my hon. Friend is seeking to guarantee that there is an accurate *Hansard* record that describes the doubt about the process, because it may well be a process that will be challenged in the future? This is not about the detail of the changes that the Minister is seeking to make, which I think there is broad agreement on and support for, but rather my hon. Friend has the parliamentary opportunity to get a *Hansard* record of what the anxiety is about the process.

The Chair: Order. Before I call you to resume, Dr Whitehead, may I try to be of assistance to you? The selection in this grouping was chosen by the Chair; it was made available to the Committee for comment and was capable of having amendments tabled to it. The reason why it is grouped in this fashion is that it was chosen by the Chair and notified as such to all members of the Committee. I do hope that is helpful to you.

Dr Whitehead: Indeed, that is helpful, Mrs Gillan, but particularly in relation to the intervention by my hon. Friend the Member for Birmingham, Selly Oak I would further draw attention to the fact that the amendments that are grouped together are essentially of two different types. One set of amendments is, in essence, amendable because it is to do with the substance—and as hon. Members have seen, no amendments to those amendments have been forthcoming from the Opposition because, essentially, we agree with the substance of what has been put before us—but two other amendments, which effectively seek to pave the way for those amendments to exist, are not amendable inasmuch as if the Opposition were to seek to table an amendment to those amendments, the Opposition in turn would be trying to amend the long title of the Bill. That is something we do not want to do, and we do not think it is a terribly good way of proceeding with legislation in the first place, whatever we may think about the final constitutionality—one might say—in terms of the overall order and the scheme of things.

I think it is legitimate, regardless of whether these amendments are regarded as being in order, to draw attention to the fact that one would think, logically, that the procedure could, and perhaps should have been as I have mentioned: anyone seeking to change the long title of a Bill—this is important for possible future legislation—should first make a case for changing that long title, get the Committee's agreement that the long title should be changed and then introduce amendments, or amendments that themselves are amendable, subsequent to that agreement having been achieved. The position that we are in at the moment, as hon. Members are spotting, is that if Opposition Members say that we do not like that procedure very much and we think it causes precedents, the only way in which we can express our concern is to chuck those amendments out, and that is not really a very good way to proceed as far as discussions in Committee are concerned.

I want to express my strong concern about the procedural implications of this particular way of doing things. My concern, in terms of how the Committee is proceeding with its business, is that we will not be able to carry out our business in the way that we would like to—

The Chair: Order. Dr Whitehead, may I again interrupt you in full flow? I have taken further advice on this. I think I made it very clear that the selection is a matter for the Chair. However, the decision on each of the Government amendments and new clauses happens separately. In fact, we will not be taking a decision on the long title of the Bill until the end, as you will see from the way in which the amendments are placed on the amendment paper. I hope that is of comfort and is good information for you at this stage.

Dr Whitehead: Thank you for that, Mrs Gillan, but I think you will appreciate that even under those circumstances—where we get to a position where we

can conceivably vote in favour of the amendments this afternoon because we think they are good amendments—and then we get to the end of the process, whereby we vote against the extension of the long title of the Bill, that automatically, if it succeeds, invalidates the existence of those amendments in the first place, because the long title of the Bill will not have been changed at that point, and therefore those amendments will not have existed. That also seems to me to be a potential concern about procedure for the future.

The Chair: Order. Again, I hate to interrupt you, but I have taken further advice on this because it is unusual; I think you are right in saying that and I think the Minister acknowledged that earlier on. The amendments are in scope and the change to the title does not change that. We decide on the long title at the end of proceedings.

Dr Whitehead: I must confess that I am a little bit confused by that ruling. I take your point, Mrs Gillan, but my understanding is that we did have a long title of the Bill and that was the long title that we have been speaking to until this moment, and that was the long title that we spoke to on Second Reading. That was the basis on which all amendments to date, except these amendments, have been drafted into the Bill. So it does create a different series of circumstances, and one that I believe merits at least some kind of review for the future. Although I take your concerns very strongly on board, Mrs Gillan, I think it would be remiss of me not to express those points on the position we find ourselves in as far as the Bill is concerned. *[Interruption.]* I can see that I am not necessarily gaining the full acclaim of all members of the Committee in pursuing this particular point, but it is important procedurally to put it on the record. I hope we can have some further thoughts on that at a future date.

I turn to the substance of the amendments. What they do is a good idea and, had the Minister been able to bring the amendments on board by slightly different means, we would have had no concerns at all about what they say, what they add to the Bill, and why they are important in taking us to the next stage in terms of some of the benefits that smart meters may bring in the future. We would be happy to give those amendments, therefore, our wholehearted support. We are not going to press any of the amendments to a vote this afternoon, but I am pleased that our concerns are now on the record, as my hon. Friend the Member for Birmingham, Selly Oak suggested. It may well be the case that we have not heard the last of the matter.

Richard Harrington: I thank the shadow Minister for his comments. I am quite a simple person. When I was looking at this bit of the legislation, I asked a very simple question of the experts in the Department—the parliamentary advisers and lawyers: is it acceptable, is it within the rules and within the scope of the Bill, to include the half-hourly settlement? The answer was, "It is the decision—many things are—of the House authorities and the Chair, but it seems to us that it is very much within scope."

I would like to make it clear that the scope of the Bill has not changed with this Government amendment. It remains about smart metering and data from smart meters. As Mrs Gillan has confirmed, the House authorities have said that. As such, the amendments in scope would have been in scope then. Half-hourly settlements are not possible without smart-metering.

I promise I am not making light of the comments of the hon. Member for Southampton, Test. He means to get them on the record and he has explained that very reasonably. I thank him for his general support for the amendments, but at the same time I hope that he gives me the credit that this was not some charlatan move to slip something round the corner that was marginal in nature.

3.45 pm

Dr Whitehead: Forgive me, but the Minister cannot proceed in this manner. The long title makes it evident to all those sitting here. It is to

"Extend the period for the Secretary of State to exercise powers relating to smart metering and to provide for a special administration regime for a smart meter communication licensee."

It clearly and narrowly states two things. It does not even say "for related purposes." It refers to extending the period for smart meter licensing arrangements, and to a special administration regime. That is it. As the Minister himself acknowledges, it has been necessary to move two amendments to change the scope of the Bill, essentially in order to omit those elements. So that is the basis on which we should discuss this, whatever the rights and wrongs of the amendments otherwise are.

Richard Harrington: I fully accept the hon. Gentleman's right to discuss the matter, and I did not suggest for a moment that he was doing wrong in bringing this forward, or placing it on the record—far from it. I am just saying that, from my point of view, this was acting upon advice, that it was perfectly proper to get something that I felt was very important. I believe that it has the support of—I hope—most Members in the House generally, because we all think that it is a very good thing. I am sorry that the hon. Gentleman feels as he does, but I thank him for accepting that it was done for the right reason. I believe, as he does, that parliamentary procedure is important.

These rules have evolved over centuries for reasons, and—quite rightly—neither I nor anyone else on behalf of the Government can get things in round the side, or bring in things that should never be. When we decided to introduce the amendment, I did have a meeting with the hon. Gentleman to explain it to him, I suppose in an official capacity but obviously not within a Bill Committee capacity, and he did explain his support generally for it. His points have been noted on the record. I hope that my response—which I do not think he found satisfactory—is also on the record.

The amendments support the move to a smarter, more flexible energy system. Half-hourly settlement billed directly on a smart metering platform is a central aspect of the smart systems and flexibility plan that was published in July. The proposals will allow Ofgem to take forward the reforms in a more streamlined way, and I thank the shadow Minister for his support for the substance of the amendments.

Amendment 17 agreed to.

Clause 11, as amended, ordered to stand part of the Bill.

New Clause 8

MODIFICATION OF ELECTRICITY CODES ETC: SETTLEMENT USING SMART METER INFORMATION

"'(1) The Gas and Electricity Markets Authority ("the Authority") may—

(a) modify a document maintained in accordance with an electricity licence, and

(b) modify an agreement that gives effect to such a document,

if the condition in subsection (2) is satisfied.

(2) The condition is that the Authority considers the modification necessary or desirable for the purposes of enabling or requiring half-hourly electricity imbalances to be calculated using information about customers' actual consumption of electricity on a half-hourly basis.

(3) The power to make modifications under this section includes—

(a) power to make provision about the determination of amounts payable in connection with half-hourly electricity imbalances;

(b) power to remove or replace all of the provisions of a document or agreement;

(c) power to make different provision for different purposes;

(d) power to make incidental, supplementary, consequential or transitional modifications.

(4) A modification may not be made under this section after the end of the period of 5 years beginning with the day on which this section comes into force.

(5) In this section—

"balancing arrangements" means arrangements made by the transmission system operator for the purposes of balancing the national transmission system for Great Britain;

"electricity licence" means a licence under section 6(1) of the Electricity Act 1989;

"half-hourly electricity imbalance" means the difference between the amount of electricity consumed by an electricity supplier's customers during a half-hour period and the amount of electricity purchased by the electricity supplier for delivery during that period, after taking into account any adjustments in connection with the supplier's participation in balancing arrangements;

"supply", in relation to electricity, has the same meaning as in Part 1 of the Electricity Act 1989 (see section 4(4) of that Act);

"transmission system" has the same meaning as in Part 1 of the Electricity Act 1989 (see section 4(4) of that Act);

"transmission system operator" means the person operating the national transmission system for Great Britain."—*(Richard Harrington.)*

This new clause gives Ofgem power to modify documents maintained in accordance with an electricity licence, or agreements giving effect to such documents, so as to enable half-hourly electricity imbalances to be calculated using information obtained from smart meters.

Brought up, read the First and Second time, and added to the Bill.

New Clause 9

MODIFICATION UNDER SECTION(MODIFICATION OF ELECTRICITY CODES ETC: SETTLEMENT USING SMART METER INFORMATION)

"(1) Before making a modification under section(Modification of electricity codes etc: settlement using smart meter information), the Gas and Electricity Markets Authority ("the Authority") must—

(a) publish a notice about the proposed modification,

(b) send a copy of the notice to the persons listed in subsection (2), and

(c) consider any representations made within the period specified in the notice about the proposed modification or the date from which it would take effect.

(2) The persons mentioned in subsection (1)(b) are—

(a) each relevant licence holder,

(b) the Secretary of State,

(c) Citizens Advice,

(d) Citizens Advice Scotland, and

(e) such other persons as the Authority considers appropriate.

(3) The period specified under subsection (1)(c) must be a period of not less than 28 days beginning with the day on which the notice is published.

(4) A notice under subsection (1) must—

(a) state that the Authority proposes to make a modification,

(b) set out the proposed modification and its effect,

(c) specify the date from which the Authority proposes that the modification will have effect, and

(d) state the reasons why the Authority proposes to make the modification.

(5) If, after complying with subsections (1) to (4) in relation to a modification, the Authority decides to make a modification, it must publish a notice about the decision.

(6) A notice under subsection (5) must—

(a) state that the Authority has decided to make the modification,

(b) set out the modification and its effect,

(c) specify the date from which the modification has effect,

(d) state how the Authority has taken account of any representations made in the period specified in the notice under subsection (1), and

(e) state the reason for any differences between the modification set out in the notice and the proposed modification.

(7) A notice under this section about a modification or decision must be published in such manner as the Authority considers appropriate for bringing it to the attention of those likely to be affected by the making of the modification or decision.

(8) Sections 3A to 3D of the Electricity Act 1989 (principal objective and general duties) apply in relation to the functions of the Authority under section (Modification of electricity codes etc: settlement using smart meter information) and this section with respect to modifications of documents maintained in accordance with electricity licences, and agreements giving effect to such documents, as they apply in relation to functions of the Authority under Part 1 of that Act.

(9) For the purposes of subsections (1) to (10) of section 5A of the Utilities Act 2000 (duty of Authority to carry out impact assessment), a function exercisable by the Authority under section (Modification of electricity codes etc: settlement using smart meter information) is to be treated as if it were a function exercisable by it under or by virtue of Part 1 of the Electricity Act 1989.

(10) The reference in subsection (8) to the functions of the Authority under section(Modification of electricity codes etc: settlement using smart meter information) includes a reference to the Authority's functions under subsections (1) to (10) of section 5A of the Utilities Act 2000 as applied by subsection (9).

(11) In this section—

"electricity licence" has the meaning given in section (Modification of electricity codes etc: settlement using smart meter information);

"relevant licence holder" means, in relation to the modification of a document maintained under an electricity licence or an agreement that gives effect to such a document, the holder of a licence under which the document is maintained."—*(Richard Harrington.)*

This new clause sets out the procedural requirements that apply to the exercise of the power under NC8.

Brought up, read the First and Second time, and added to the Bill.

New Clause 10

DATE FROM WHICH MODIFICATIONS OF ELECTRICITY LICENCE CONDITIONS MAY HAVE EFFECT

"(1) The Electricity Act 1989 is amended in accordance with this section.

(2) In section 11A(9) (modifications of electricity licence conditions not to have effect less than 56 days from publication of decision to modify), at the end insert ", except as provided in section 11AA".

(3) After that section insert—

"11AA Modification of conditions under section 11A: early effective date

(1) The date specified by virtue of section 11A(8) in relation to a modification under that section may be less than 56 days from the publication of the decision to proceed with the making of the modification if—

(a) the Authority considers it necessary or expedient for the modification to have effect before the 56 days expire,

(b) the purpose condition is satisfied,

(c) the consultation condition is satisfied, and

(d) the time limit condition is satisfied.

(2) The purpose condition is that the Authority considers the modification necessary or desirable for purposes described in section (Modification of electricity codes etc: settlement using smart meter information)(2) of the Smart Meters Act 2017 (enabling or requiring half-hourly electricity imbalances to be calculated using information about customers' actual consumption of electricity on a half-hourly basis).

(3) The consultation condition is that the notice under section 11A(2) relating to the modification—

(a) stated the date from which the Authority proposed that the modification should have effect,

(b) stated the Authority's reasons for proposing that the modification should have effect from a date less than 56 days from the publication of the decision to modify, and

(c) explained why, in the Authority's view, that would not have a material adverse effect on any licence holder.

(4) The time limit condition is that the specified date mentioned in subsection (1) falls within the period of 5 years beginning on the day on which section (Modification of electricity codes etc: settlement using smart meter information) of the Smart Meters Act 2017 comes into force."

(4) In paragraph 2 of Schedule 5A (procedure for appeals under section 11C: suspension of decision), after sub-paragraph (1) insert—

'(1A) In the case of an appeal against a decision of the Authority which already has effect by virtue of section 11AA, the CMA may direct that the modification that is the subject of the decision—

(a) ceases to have effect entirely or to such extent as may be specified in the direction, and

(b) does not have effect, or does not have effect to the specified extent, pending the determination of the appeal.'"—*(Richard Harrington.)*

This new clause allows licence modifications under NC8 to become effective before 56 days have elapsed.

Brought up, read the First and Second time, and added to the Bill.

New Clause 1

REVIEW OF SMART METER ROLLOUT TARGETS

"(1) Within 3 months of this Act coming in to force, the Secretary of State must prepare and publish a report on the progress of the smart meter rollout and lay a copy of the report before Parliament.

(2) The report under subsection (1) shall consider—

(a) progress towards the 2020 completion target;

(b) smart meter installation cost;

(c) the number of meters operating in dummy mode;

(d) the overall cost to date of the DCC;

(e) the projected cost of the DCC; and

(f) such other matters as the Secretary of State considers appropriate." —*(Steve McCabe.)*

This new clause would require the Secretary of State to publish details about the cost and progress of the smart meter roll out, with reference to the 2020 deadline.

Brought up, and read the First time.

Steve McCabe: I beg to move, That the clause be read a Second time.

The Chair: With this it will be convenient to discuss the following:

New clause 7—*Review: smart meter installation rates*—

"(1) The Secretary of State shall commission an annual review of attainment rates of smart meter installation, this review must include—

(a) information on the total number of functioning smart meters at the end of each attainment period,

(b) analysis of any discrepancy between attainment numbers and total functioning numbers.

(2) The Secretary of State shall lay the report of the review in subsection (1) before each House of Parliament."

This new clause requires the Secretary of State to review attainment rates annually.

New clause 11—*Smart meter roll out cost benefit analysis*—

"(1) Within one year of this Act coming into force, the Secretary of State shall lay a report on the costs and benefits of the smart meter rollout before each House of Parliament.

(2) The report under subsection (1) must include an independent cost benefit analysis of the smart meter rollout programme."

Steve McCabe: I am not sure this need necessarily take long. As we have heard, it is a legal obligation on the energy suppliers to take all reasonable steps to meet the 2020 target of every household being offered a smart meter. Both new clause 1 and new clause 11 outline some steps that the Secretary of State could take to ensure timely completion of the roll-out while protecting consumers and ensuring the benefits of the roll-out are fully realised.

New clause 1 is fairly specific in the information it asks the Secretary of State to publish, and includes the progress toward the 2020 target as well as information on the costs and projected costs of DCC and the installation of meters more generally. I listened to the Minister earlier making a commitment to publish an annual report on the progress of the roll-out. Most people, certainly on this side, thought that was a helpful and reasonable offer.

[Steve McCabe]

It is important to point out to the Committee that the Government's commitment to annual progress reports has fallen by the wayside. What we actually heard today was an offer from the Minister to reinstate them, as far as I can see. In December 2012 the Government published their first annual progress report on the roll-out, which gave an overview of the programme and the progress to date. They subsequently published two further progress reports in 2013 and 2014, but since then there have been none. Obviously, we know that from 2014 the progress was not quite so good to report on; I do not know whether that is the reason, but my point is that we stopped getting the reports.

That is why I thought it would be helpful to have on the face of the Bill a commitment for a regular progress report. I was pleased to hear the Minister say earlier that it is his intention to provide it anyway, and that is good enough for me, but I cannot guarantee that the Minister will be in his post even for the duration of the Bill, can I? I have no way of knowing what a successor might do. Goodness, I wish the Minister well and I hope he is in post much longer than the duration of the Bill, but I am simply recognising that, if I look around the present Government, quite a few people who were in post a few weeks ago are no longer there. These things happen, and they happen quickly in politics. We can never tell what is around the corner.

I am simply observing that the Minister's word in itself is not sufficient for the purpose, because what the Government have previously done was to publish reports and then stop publishing them when the information became less convenient. I thought it would make sense to make a request to have it on the face of the Bill, and that is what new clause 1 seeks to do.

New clause 11 requires the Secretary of State to commission an updated, independent cost-benefit analysis of the roll-out. Mrs Gillan, you will not want me to go over all this again, but we know that the cost-benefit analysis from 2016 showed a downward trend. Although I hear the Minister and I know his intentions are good, my concern throughout has been that we could reach a stage where those benefits turn negative. That is why I raise this matter.

We heard from Audrey Gallacher of Energy UK. She said that she thought it was time for a new impact assessment to ensure that the benefits case is still alive. The value of the assessment that I am calling for—an independently led assessment, as mentioned in new clause 11—is that it would bring confidence to all stakeholders. They would have a chance to consider independent information, so it would be good for the suppliers. It would be good for the Department and for the DCC and customers. If it were to show that the benefits case is no longer as strong as it was, it would give us the opportunity to look at other approaches that the Government might choose to pursue. It would take us back to the question of whether there is a different model—with the SMETS 1 and the mini DCC we heard the evidence about—as opposed to the elaborate DCC model that has taken up so much of the consideration of this Committee.

In the situation of uncertainty surrounding the roll-out, an updated cost benefit analysis would be a sensible commitment to include on the face of the Bill. It would provide stakeholders with certainty and transparency and improve the credibility of the smart meter roll-out. For those reasons I suggest that the Committee considers adopting both new clauses 1 and 11.

Dr Whitehead: I want to speak in favour of new clause 7 and to support what my hon. Friend the Member for Birmingham, Selly Oak says about the merits of new clauses 1 and 11, and taking into account the fact that the Minister has already indicated that he is prepared to produce publicly available annual reviews on aspects of the smart meter roll-out. *[Interruption.]*

The Chair: Order. Will the hon. Member for Crewe and Nantwich turn her phone off, or leave the Committee and deal with it outside?

Dr Whitehead: I thought I was throwing my voice for a moment. I have other talents, but not that.

The content of new clauses 1, 7 and 11 can essentially be tucked into what the Minister has said about an annual report. The desired outcome of this debate might be to obtain an indication from the Minister on whether the concerns raised are the sort of thing he thinks might be in the annual report he has mention. New clause 7 draws particular attention to the relationship between the total number of smart meters that have been installed at the end of particular attainment periods and what is happening to the functionality of those meters in those periods. That relates to some extent to a concern about what companies are required to do, so far as their agreements with Ofgem are concerned, about each period that they have to report on for the purpose of the roll-out and what attainment they are expected to achieve as part of their legal requirements to roll out smart meters in that period.

4 pm

A little while ago, Ofgem issued a direction to those energy companies setting out what attainment periods would consist of and what would be regarded as reasonable attainment by companies installing smart meters against the target set for each attainment period. The position in that legal direction was that those companies should achieve 95% attainment in each period to be regarded as within the terms placed on them by Ofgem. If their attainment is outside that, they may be regarded as not having fulfilled their legal obligations and may be liable for fines or other intervention.

Attainment periods were used, at least in part, to inform the recent consultation about what level of SMETS meters can be installed beyond April 2018 to use up stocks of SMETS 1 meters. Large energy companies' entitlement to undertake further installation in the next period relates to what they attained so far as roll-out is concerned in the previous quarter. There is a series of related things, all of which are concerned with attainment in a particular period, in those energy companies' agreements.

What the attainment periods and numbers do not show is what is actually happening in terms of what might be called nailing meters on the wall. Concern has been expressed in various quarters as the roll-out has progressed about the extent to which the meters that are being installed really work. There are certainly reports that in some circumstances, as the roll-out has increased, people have set aside a day to have their meter put in

and it has been installed very quickly, but it has turned out not to function at all, or to function to only a limited extent. Those meters have to be visited again, sometimes on a number of occasions, and rectified before roll-out can be said to be complete, but it appears that attainment is measured by whether the visit for the smart meter to be installed takes place, whether the meter subsequently functions or not.

As roll-out increases and there are issues with the functionality of meters in the transfer from the SMETS 1 regime to the SMETS 2 regime as far as DCC is concerned, there will undoubtedly be a pool of meters that do not function for one reason or another. Some will be non-functioning because of switching, some because of when they were installed and some because of how they were installed. There will also be circumstances in which installations are marginal to the existing DCC operating system. Meters may just about get a signal and just about work, or may turn out not to work as well as they should do, and might then be subject to the additional procedures that we have discussed—the procedures for patching systems and the various systems for making meters in flats fully communicable. In areas of Scotland in particular but also in other parts of the United Kingdom, the area network will operate only partly so far as receiving signals from smart meters is concerned and will have to be patched and extended, possibly on the basis of experience—that is, on the basis of whether, after installation, meters turn out to work as they should.

The new clause therefore suggests that there should be information in an annual review on the total number of functioning smart meters at the end of each attainment period so that companies cannot simply report that they are reaching their 95% attainment target, or whatever it is, but actually walk away at the end of each attainment period and leave the position much worse than it appears. That is an important element of the roll-out, not only in terms of those attainment periods being an accurate depiction of what has actually happened so far as installation is concerned, but in giving the public confidence that the roll-out is actually a roll-out and not an exercise in trying to get numbers up regardless of what they report on the objective circumstances they find themselves in once the meters have been installed.

Steve McCabe: My hon. Friend says he is offering protection for the public, which is true, but is he not actually offering a bit of protection for the Minister? As I said before, if this goes wrong, only one person will carry the can. My hon. Friend proposes a way of guaranteeing that the information provided—or filtered through BEIS—to the Minister is actually real information about what is happening, in terms of functional meters, as opposed to this fantasy information about cold calls or visits that have not resulted in any activity.

Dr Whitehead: Indeed; my hon. Friend makes an important point. As we have discussed, there remains a little bit of a discrepancy, one might say, between the ambition of those responsible for it for what the roll-out looks like and the Government's claim that the target really is that everyone will have been offered a smart meter by 2020. It seems important to me that we reconcile those two positions as the roll-out progresses. In a way, Ofgem is actually reconciling those positions in terms of getting a picture of what is actually happening so far as the roll-out is concerned on the actual number of meters installed in homes after the end of the visits, but it is not quite yet getting to the position of whether the meters are actually operating as they should.

My hon. Friend is also right that I am anxious to make sure the Minister is as well protected as possible; I always am. It is a personal ambition of mine that the Minister should be properly protected under all circumstances, and the new clause will help him in that respect. It will give us, I hope—among other things in the Minister's annual reports—an accurate depiction of the real picture, so that the defence of that picture can be undertaken by the Minister on the basis of accurate information that will not come back to whack him around the head.

I can think of no better protection for the Minister than being assured that he will not be whacked around the head by statistics at a later date. I am therefore sure that he will take the substance of the new clause on board in his response, if not the whole new clause, particularly in terms of what may well be in the report he has promised us for the future.

Patricia Gibson (North Ayrshire and Arran) (SNP): I am keen to say a few words on new clauses 1 and 7, because I feel they concern matters that have to be put in front of the Minister at this juncture in the consideration of the Bill to remind him about the progress of the roll-out and the review of the installation of these meters.

The point I was trying to make this morning—I accept that it was perhaps an inopportune time—was that there is a difficulty because Energy UK and Ofgem agree that aggressive selling is not appropriate, but that will not give us comfort until it is properly and comprehensively addressed. I am sure the Minister will correct me if I am wrong, but it is my understanding that Ofgem has the power to fine energy companies up to 10% of their annual turnover if they fail to meet their licence conditions. One of the licence conditions is for each energy company to install smart meters in consumer homes by the end of 2020. Failure to do so can result in a massive penalty for the energy company. I think the hon. Member for Birmingham, Selly Oak has already alluded to this.

The use of aggressive selling starts to make sense if the energy companies are under pressure to deliver these things into people's homes. Will the Minister consider the balance between customer choice and meeting this target? I certainly have questions about that. I know from speaking to my own constituents that there is some suspicion of smart meters. Whether it is real or misplaced is not the point. The people into whose homes they go are not 100% on board. When we are talking about the roll-out and monitoring the progress of the installation, there is a job of work to do with consumers and energy companies. I am not making accusations, but there are allegations that energy companies go after customers quite aggressively to get meters put into their homes.

The Minister may be interested to know about work called "deemed appointments". Energy companies tell their customers that they are going to be in their area on a particular day. They give a specified time and date; there is no consultation with the customer. The customer is merely informed. The customer is able to cancel or

[Patricia Gibson]

rearrange the appointment, but if the customer does not respond to the notification, the company will turn up prepared and ready to install a smart meter. We have evidence from Audrey Gallacher of Energy UK, who said:

"We have also had some feedback from Ofgem, the regulator, that companies should be taking a much more assertive approach,"—[*Official Report, Smart Meters Committee Public Bill Committee,* 21 November 2017; c. 10, Q14.]

That is quite worrying because already we are hearing of companies taking what many would consider an over-assertive approach. When we are talking about the progress of the roll-out, we have to be mindful of the need to put the customer at the heart of the process, and Ofgem should perhaps monitor how the smart meters are sold to the public and what the response might be. The Minister might already be aware that the Trading Standards Institute believes it has some grounds for believing that the energy companies may be committing offences under the Consumer Protection Act 2015. I think that should give us real cause for concern; we surely hope to roll out smart meters with the public fully on board. This does not breed trust between the energy companies and the consumers into whose homes we expect the meters to go.

We need to be very careful when talking about the roll-out and installation. Nobody in this room would not want that to go smoothly, but there are already difficulties. Citizens Advice has already reported difficulties in a report released in September. It said that it was not happy and had real concerns about the way in which consumers were being treated. Citizens Advice also believes that offences may be taking place in the way that this is being rolled out. I know that that will give the Minister some cause for concern.

The hon. Member for Birmingham, Selly Oak has set out new clause 11 very clearly and I do not want to add too much to what he has said. However, we have to remember that the cost is £11 billion and rising. That cost is borne by every single household. Smart Energy GB has previously referred to a Government cost-benefit analysis; of course there are cost benefits, but the figure of £11 billion is one to watch, because we really do not want that figure to rise. It is about consumer confidence; we do not want the consumer to feel that they have been financially imposed upon. The hon. Member for Birmingham, Selly Oak set that out so well that I will not say any more.

4.15 pm

Matt Western (Warwick and Leamington) (Lab): Clearly, the scheme is an incredibly ambitious one; the scale of it as a consumer programme is virtually unprecedented. That is why the hon. Member for North Ayrshire and Arran, my hon. Friend the Member for Birmingham, Selly Oak, and others have said that we have to ensure that what we do is in the public eye, the public interest and the consumer interest.

The intention behind the reporting is clearly a good one, not just for us in terms of monitoring but also for raising the visibility and the importance of the programme. A public relations exercise almost needs to be done because there seems to be so much confusion out there, particularly among consumers. The points made by my hon. Friend the Member for Birmingham, Selly Oak in terms of those metrics are critical, but it is also critical that we begin to understand the sort of behavioural change among consumers, in terms of that cost-benefit analysis for the whole programme and for individual households.

I do not want to spin the wheels and repeat what has been said. The only thing that I would urge is a little more ambition in the reporting. The annual report is not bad—it is a good idea—but like most businesses, which give quarterly updates, given those really important metrics and given that the ambition was set for 2020, arguably there are not many annual reports left between now and then. Perhaps a quarterly summary report would be valuable to see the progress that has been made and, critically, how the scheme has been adopted or accepted and how it is working with the consumer.

Richard Harrington: I thank hon. Members for their contributions, particularly the shadow Minister—or should I now call him my protection officer? I have never had one of those before and thought that I was not likely to, but I am very pleased that he has taken it upon himself to appoint himself to that position, which I warmly endorse and I thank him for that.

The new clauses give me the chance to set out the Government's commitments for reporting on the smart meter roll-out, which is very important and something that I have given a lot of thought to. Before I do, I want to mention a couple of points that the hon. Member for North Ayrshire and Arran made, because they are quite different. She said that consumers were being misled by their energy companies and bullied into getting a smart meter—which is really what she was saying. I reiterate that it is not compulsory for anyone to have a smart meter installed. Consumers have a right to decline them.

Patricia Gibson: The Minister knows, as do I and everyone in this room, that smart meters are not compulsory, but my concern is that consumers are not always told that.

Richard Harrington: They should be, and I will do everything to make sure that they are. Suppliers have to treat their customers fairly, and that means being transparent and accurate in their communications. Ofgem has been in touch with energy suppliers to remind them of their obligations. It has written to all suppliers about deemed appointments—one of the points she made—to make clear that they have to consider whether deemed appointments are appropriate. Ofgem have marked their card on that because they have to take into account the consumers' circumstances, for example ability to communicate, whether they may have not got the letter, and more. While I know that the hon. Lady is speaking entirely in good faith and that there have been examples of that, Ofgem is on it, and I shall monitor it carefully, as well as the other points she raised.

There is a conflict between us all wanting smart meters to be installed, because we think it is of long-term benefit to everyone, and protecting people's right not to have one if they do not want one, for whatever reason, and to be informed of that right. We are putting pressure on the energy companies to install more, in keeping with the targets; the hon. Lady is right about that.

However, we do not want any of the mis-selling cases that were well publicised some years ago, of people knocking on doors and getting householders to change supplier on false pretences. While the intentions are much more noble in this case, and however much we might think it is a good thing to have smart meters, we certainly do not want any form of pressure or inappropriate behaviour to mislead people. I tell everyone that it is brilliant to have a smart meter, and hopefully most of us will, but it is not for everybody. People should not feel under any pressure, and they should only want to have one for the best reasons.

I can be accused of many things, but lack of enthusiasm is not one of them. This is a really important element of the modernisation of the country's energy infrastructure. Supplier switching is good, and I have done it myself, but it is not the answer. It is a right and a good thing to do, but the answer lies in what the smart meters will produce. I keep coming back to that in my head. I will not go through the reasons for it again, because hon. Members have been patient all day and on other days.

I understand and welcome the appetite for information on progress. It is right for us, as parliamentarians, to want that, and it is right for the Government and the Department to want to give that. It is right that customers generally should know, from the general public to what one paper calls the chattering classes—in other words, people who write on it, comment on it and study it. The more knowledge they have, the more it is part of the smart meter revolution, and the more people who have smart meters do not think they are alone and do not listen to the stories I have been sent by constituents—scare stories from the United States, conspiracy theories that MI5 is listening through smart meters and that sort of thing.

Steve McCabe: What?!

Richard Harrington: I have my own protection officer, so I am not bothered about that kind of thing, but other people are.

The new clauses would require the Government to publish information on programme costs and benefits, as well as details of installation activity and whether meters are operating in smart mode. I would like to address those in turn, to the satisfaction of all hon. Members, and particularly the hon. Member for Birmingham, Selly Oak and the shadow Minister—I always refer to him by his official title, but he is the hon. Member for Southampton, Test.

The programme costs and benefits are dealt with in new clauses 1 and 11. The Government published their initial assessment in 2008. Since then, the Government have updated and published their cost-benefit analysis a number of times, including in 2014 and 2016. Those publications included quite detailed breakdowns of the costs and benefits of the programme, including the DCC cost, which has been discussed before, and the installation of smart meters.

While there have been changes in the estimated costs and benefits over the years as our evidence base has developed, the business case for smart meters has remained good value for money. The benefit-to-cost ratio has remained stable since 2011, at around £1.50 of benefit for every £1 invested. Our latest cost-benefit analysis, published in November 2016, outlines net benefits of the smart meter roll-out of £5.7 billion. It is easy to talk in billions, but that is quite a lot of money, whichever way we look at it.

Our approach on the smart metering programme has been to update the cost-benefit analysis when substantive new evidence on costs and benefits for the programme comes to light through our monitoring and tracking. For example, the most recent update in November 2016 replaced estimates in a number of areas, including meter asset costs and financing and installation costs, with actuals based on information obtained from industry. It is right that estimates are replaced with actuals as soon as we have the information for it.

The hon. Member for Birmingham, Selly Oak asked why costs increased between the 2014 and 2016 assessments. The difference was about 0.5%, which is £500 million. Again, lots of zeroes; not a number to make light of. The increase is roughly equivalent to changes in the cost of fossil fuels, which impacts the value of the energy savings in our assessment. That was really his point; he asked that question before and I found out the answer for him. It is a reasonable question to ask.

It is important to know that it is not common practice for Government policies and programmes to update their cost-benefit analysis regularly in this way, and certainly not beyond the assessment made to inform the panel's policy decision. With smart meters, we have done so in order to provide the additional public information and transparency. This is such a major upgrade of our energy infrastructure and will be transformational for people when the programme evolves further.

We have no immediate plans to publish an upgraded cost-benefit analysis, but we are regularly monitoring costs and benefits and would certainly update our analysis if there were new or substantive evidence or changes in policy design. I would like to make it clear that if there were substantive changes in the evidence, of course we would. I hope we have a track record that demonstrates that, if and when such evidence emerges, we will update our assessment. We would be negligent if we did not, and I am sure we would be held to account. In addition, the Data Communications Company regularly publishes budgets and cost projections on its website.

In relation to the installation activity mentioned in new clauses 1 and 7, the Government regularly publish statistics on the progress of the smart metering roll-out. Independent official quarterly statistics on the progress of the smart meter roll-out by the large energy suppliers are published every quarter and have been since September 2013. They are a report on the number of smart and advanced meters installed, as well as the number of meters in operation at the end of a reporting quarter. In addition, a summary of annual roll-out progress for the calendar year of the roll-out is published every March. This captures performance of both small and large suppliers for the preceding calendar year. The number of smart meters operating in traditional mode can be determined from these reports, but I am happy to look at ways to express that more clearly, because I think, as my protection officer has requested, clear and accurate information is important for people. There is no reason to provide clouds of vagueness on this. It is in everybody's interest to be clear.

Steve McCabe: The Minister is giving the Committee helpful information. Why, after 2014, did the Department abandon the progress reports that he is now proposing to reinstate? Was there an obvious explanation for that?

[Steve McCabe]

Richard Harrington: I do not have an obvious explanation for the hon. Gentleman, but I am perfectly prepared to find out and write to him. As far as I am concerned, when I took over, annual reports seemed an obvious thing to do. I would like them to be as comprehensive as possible. I think that that is in everybody's interest. I hope that they get press coverage and that people read them and say "I want one of these." That is what we want.

In his erudite speech, the hon. Member for Warwick and Leamington made a point about changing behavioural patterns. In my previous job in pensions, they called it nudging people. Publicity about the annual report or anything else to do with it is going to nudge people's behaviour. Instead of people reacting to nonsense offers that pretend that it is compulsory, as mentioned by the hon. Member for North Ayrshire and Arran, I hope that they will think, "I want to find out about those. I'll go online or call. I want one." That is what the advertising campaign on buses, the tube and so on is doing: it is nudging people and trying to change their behavioural pattern. The reporting side of it, which should be as comprehensive as possible, is very much part of that.

The smart metering programme is being delivered with a high degree of transparency through our existing reporting regime, and I am certainly going to reflect on how reporting can be made clearer. In particular, I undertake to deliver further information via the annual update of the smart meter implementation programme, and I will make copies available to both Houses. If there are changes in the interim, I do not think it would right to undertake to produce quarterly reports. That would be a very bureaucratic process. There would probably not be enough information to change, and they would quickly become outdated. I do not think that would be reasonable. However, if there are fundamental changes, or even good incremental changes—or, indeed, bad incremental changes—it is in our interests to publicise them and to deal with them. I am going to look at ways to make this as sharp and clear as possible. In the light of that explanation and commitment, I hope that the hon. Member for Birmingham, Selly Oak will withdraw the motion.

4.30 pm

Steve McCabe: In view of the Minister's words, I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 2

REVIEW OF PUBLIC AWARENESS LEVELS AND SATISFACTION WITH SMART METER ROLLOUT

"(1) Within 3 months of this Act coming into force, the Secretary of State shall commission an independent review of current public awareness of smart meter rollout and public satisfaction with the rollout.

(2) The report under subsection (1) shall consider—

(a) the effectiveness of consultation between industry and the public about the rollout process;

(b) the awareness among vulnerable groups of smart meter rollout;

(c) the satisfaction of the public, in particular vulnerable groups and people living in rural areas, with the information available on smart meter rollout.

(3) The Secretary of State must lay a copy of the report before Parliament and arrange for an opportunity for the report to be debated within 6 weeks of the report being laid."—*(Steve McCabe.)*

This new clause would require the Secretary of State to commission an independent review of public awareness and satisfaction of smart meter rollout and for the review to be debated in the House of Commons.

Brought up, and read the First time.

Steve McCabe: I beg to move, That the clause be read a Second time.

I shall be brief. This is almost where my interest in this subject started. When I first came across smart meters, I thought "Hey, that is a really clever idea". Then, like the hon. Member for North Ayrshire and Arran, I started to attend to stories of people saying that they were being pressed to have these meters and that they were being treated in a fairly cavalier fashion. As I have said at various stages, I felt that public certainty, public satisfaction and, indeed, basic public knowledge was a problem.

New clause 2 is self-explanatory: it calls for a review of public awareness levels and satisfaction with the roll-out. I want to know in particular about the effectiveness of the consultation between the industry and the public. I know that this was not particularly about satisfaction levels—it was more about roll-out procedures—but I found the funnel evidence pretty bamboozling. It did not do anything for my confidence as I listened to that. We need know how effective that consultation is.

I am particularly concerned that awareness is raised among those people whom we might call vulnerable groups or vulnerable users. It should be a central concern of the Minister that they benefit.

We heard from hon. Member for Moray during the evidence session that he was particularly concerned, and rightly so, about satisfaction and roll-out in rural areas. It would do not good at all were we to embark on a multi-billion pound project and then discover that consumers in certain parts of the country were getting a poorer deal.

Douglas Ross: Does the hon. Gentleman accept, however, that my concerns are about the availability of smart-meter installation—rural constituencies such as my own in Moray seem to be at the back end—rather than about the overall perception of smart meters and their success or otherwise?

Steve McCabe: I accept that, although I interpret "satisfaction" to also mean satisfaction with the delivery and benefit of the meter.

What I am asking for it is self-explanatory. I will not do us any good if I keep going on about it. I have made the point to the Minister, so he knows why I think it is important.

Patricia Gibson: I shall be brief. I agree with everything that the hon. Member for Birmingham, Selly Oak said—I fear that this is turning into a bit of a mutual admiration society. I will say no more, except that, alongside the public awareness for which the new clause calls, we would expect public confidence and transparency. The Minister has talked a great deal today about transparency. What I would like, but suspect I will not get, is an assurance

from the Minister on public awareness and the confidence we would expect to come with it. Customers have raised the issue with me, and I know that it has also been raised in other arenas. They fear that when their energy usage is known in such detail, it will be used, at some point in the future, as a lever to smooth out demand by having different price bands.

Peak times such as 4 o'clock to 7 o'clock are a real worry for families who are already struggling with energy bills—indeed, with all their bills. We have talked about nudging, and people are concerned that this might be used as a way of nudging their behaviour and when they use their energy, and about what they should do during peak times to avoid using energy as much as they possibly can—that is not entirely possible for everybody. The fear is that this measure may be used to raise charges.

Stephen Kerr: I wonder whether that is entirely a bad thing, given that there will potentially be quite rich savings for people who are prepared to change their behaviour and their use of appliances—especially energy-heavy ones—during peak times.

Patricia Gibson: It may not be a bad thing for certain people who are in a position to do that, but when kids come in from school and they need to have their dinner—people cannot really work around that and say "You need to wait until 8 o'clock to get your dinner because energy is cheaper then." There are people for whom that might yield great benefits, but some are trapped in that peak period and cannot work around it. That is a real concern for a lot of consumers, as I am sure the Minister will understand.

Richard Harrington: As per the practice that I started in discussing the previous group of amendments, before addressing the substantive point perhaps I could try to answer the hon. Lady's questions. The sentiments expressed by my hon. Friend the Member for Stirling are right—this issue is a double-edged sword. The very people that the hon. Lady described, who have children coming home and need to get the tea on, might also have a choice about when to do their washing and such things. The smart meter and the information that comes from it, can help as well as hinder people in those circumstances.

The choice of which tariffs to accept, even with the smartest of smart meters, will remain entirely with the customer. Smart meters facilitate time-of-use tariffs, which can influence demand and help to shift consumption away from peak times—that is a good thing—but they will also give people a choice that they do not have now. At the moment, if someone does not have the meter to give them the information, they cannot take an informed decision. Based on conversations I have had, I expect that suppliers will develop and offer new, smart, time-of-use tariffs that will be attractive to most consumers and help them to realise their benefits.

I accept the hon. Lady's core point—people must be aware of the choices available, and they must be the type of customer that can take advantage of that choice. If their only function, apart from basic lighting and heating, is to hugely increase their use of electricity at a certain time because of cooking and children coming home, I accept that such a tariff would not be suitable for them. People must have the information to take that decision. I think I have laboured the point, but the hon. Lady raises an interesting issue that is not at all unreasonable—that is what I would expect, given her other consumer-based questions.

I shall try to deal briefly with the new clause in the spirit in which it was meant. Should the Secretary of State commission an independent review of public awareness and satisfaction of the roll-out? That is what is being asked. In answering, perhaps I should outline our approach to smart meter and consumer engagement in our programme up until now. It is set out formally in the programme's consumer engagement strategy, which was published in December 2012, and it was based on extensive consultation and evidence gathering, as well as polling and market research. Although energy suppliers are at the forefront of installing smart meters, it was recognised that their consumer engagement would benefit from support by a central body that was independent of them and Government. We heard evidence from a representative of that body—Smart Energy GB—which enables consumers throughout the country to get consistent messages from a single simple campaign, rather than from multiple suppliers who are jumping over one another to get customers.

Both Smart Energy GB and the energy suppliers therefore have a role. The energy suppliers have the primary consumer engagement role, because they have the main contact with customers—they are who customers get their bills from and have their contracts with. Smart Energy GB, which is an independent, not-for-profit organisation, leads a national awareness and advertising programme to drive the behavioural change that the hon. Member for Birmingham, Selly Oak mentioned and to help consumers to benefit from smart metering.

The energy supply licence conditions require that Smart Energy GB assists consumers on low incomes or with prepayment meters. Bill Bullen explained in our evidence session that that is his main market. That is really good—it is to those consumers' advantage and I hope it is to his commercial advantage, too. From what he said, he seems to have done a good job of it.

That two-pronged approach has increased awareness of smart metering from 40% to 80% of consumers in three years, and it has driven a lot of demand. A recent survey of 10,000 people from all demographics and all parts of Great Britain showed that 49% of people would like to get a smart meter in six months. The campaign is resonating with people all over the country. Independent audits of Smart Energy GB show that two in three people recall its campaign. That is actually quite a lot in advertising. Findings from the latest "Smart energy outlook", the independent barometer of national public opinion, show that detailed knowledge of smart metering is high—in some cases higher than in the general population—among groups that we might consider to have vulnerabilities, such as elderly people.

But nobody underestimates the challenge—I absolutely do not. We get a lot of information from Smart Energy GB. Suppliers share their information with it and with us, because it is in everyone's interests to do so. They are transparent about their activities, both because it is in their interests and because they are required by law to publish an annual report outlining their performance against targets, alongside an updated consumer engagement plan. All that is available to the public via the internet and the usual channels.

As recently as August, the Government published the findings of external research that we commissioned on consumer experience of smart metering. We will produce further findings from ongoing fieldwork in the next few

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months. Our evidence to date shows that consumer satisfaction with smart meters is high. Some 80% of consumers are satisfied with them and 7% are dissatisfied. That information is all publicly available. Interestingly—I know that vulnerability is of interest to every Committee member, but particularly to the hon. Member for North Ayrshire and Arran—there was higher satisfaction among prepayment respondents, who are much more likely to be vulnerable consumers.

I support the positive intention behind the new clause. The Government really have to consider how consumer engagement can be better reflected in annual reports, which have to be consumer-facing as well as Parliament-facing. I am not quite sure about the answer, but that needs to be considered in detail. On balance, though, I consider that the requirements of the new clause are well met by existing arrangements. I promise that I do not say that through complacency. I have explained about external research agencies, and Smart Energy GB, which is independent, continually reviews consumer engagement. A review is therefore not needed at this stage—not because we do not intend to do that or because it does not need to be done, but because it would duplicate existing activities and would not represent good value for money. I hope that the hon. Member for Birmingham, Selly Oak will withdraw the motion.

Steve McCabe: The Minister has persuaded me. I am happy to beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 3

OWNERSHIP RESTRICTIONS TO SUCCESSOR LICENSEES

"(1) The Secretary of State may impose conditions on to the future DCC successor licensee as appropriate.

(2) Conditions in subsection (1) may include restrictions to British owned companies subject to the expiry of any contrary obligations under EU or retained EU law, as defined in the EU (Withdrawal) Act 2018."—*(Dr Whitehead.)*

This new clause allows the Secretary of State to restrict future DCC successor licensees to British owned companies.

Brought up, and read the First time.

4.45 pm

Dr Whitehead: I beg to move, That the clause be read a Second time.

The new clause, as I flagged up to the Committee earlier, relates to clause 4(1) and to the circumstances in which a successor to a company that has gone into administration might be brought about, and the safeguards concerning the identity of that successor company should it take over the reins. My understanding of those circumstances is that, should there be a period of administration, a successor company would take over prior to 2025 when administration is determined. There could then be a retendering, as it were, of the process by which a company runs the DCC in 2025. At both of those points, there would potentially be a question about the identity of that company. We know the identity of the company at present: Capita is running the DCC, and the DCC as an organisation is a fully owned subsidiary of Capita.

I must say for the record that my ideal way of running the DCC would be for it to be a public body and not responsible to a company. The formation of the DCC, maybe at a future date should the circumstances be different, as a not-for-profit public interest body concerned with the proper administration of the whole smart meter arrangement, in the public interest and for the public good, would be the best way to organise things. That is not the position now, however, and it may not be for some while.

The amendment would look at how one might align the public interest and public good with circumstances under which a successor company might be called on, in the event of administration procedures. On this occasion it would give a power to the Secretary of State, since it would give the Secretary of State discretion to look at the circumstances of a tender or a post-administration arrangement—presumably also by tender—in circumstances where a non-GB company were to become the successor or putative successor company running the DCC.

Without entering into any great conspiracy theories, we have to have some regard for the ownership and running of an organisation that holds a huge amount of information about what we do, who we are and how we work. That is vital information concerning not just our activities, but our aggregate activities. Ensuring that the company running the DCC is working appropriately in the national interest with that information and that crucial role seems to me quite an important thing, which we ought to consider.

As things appear to stand at the moment—I do not wish to name any companies for fear that, outside the privilege of the House, they decide to deal with me appropriately—

Richard Harrington: You might need protection.

Dr Whitehead: Indeed. I was going to say to the Minister, who has gone on the record as having nudged people in his previous post, that I cannot offer him full protection if he carries on nudging people, particularly in pubs. My protection is conditional.

We ought to consider the issue seriously. I appreciate that under the present circumstances of our membership of the EU it would be difficult for the Secretary of State to exercise the sort of powers I am suggesting he might have. However, by the time 2025 comes around, one way or another we will not be a member of the EU. The Secretary of State could therefore exercise that power in the public and the national interest, unfettered by other considerations.

It would be prudent for the Secretary of State to have that power available to him or her so that we can put our affairs in order concerning what I agree continues to be an unlikely sequence of events. We ought to have it on our minds, however, in case those events occur. In that way, we can rescue not only the position of the administrator, but what the company subsequently does in the national interest as far as keeping control of all this data and running a smart meter programme are concerned.

Richard Harrington: I thank the shadow Minister for his comments. The important part of the amendment is valid. Again, it is "what if", and we have to consider that. I have tried to assess those points. The new clause

would give the Secretary of State a non-time-limited power to impose conditions on future smart meter communication licences as appropriate, which could include restricting future licensees to being British-owned companies.

The licences that are valid at the moment were granted to Smart DCC Ltd in 2013 for a period of 12 years, which is why 2025 has been mentioned quite a few times. That would be the earliest time at which they could be re-tendered. It is the intention that any competition to grant a new smart meter communication licence carried out after November 2018 would be conducted by Ofgem, the first one being appointed by the Secretary of State. That reflects our policy of transferring responsibility from the Government to the smart metering programme, from the Government to the regulator, and recognising that smart metering will eventually become business as usual for the energy industry after this period.

Grahame Morris: I know that the Minister is the soul of reasonableness, but is the issue not so much about the regulator? The regulator's principal task is the interest of the consumer. Are there not political considerations if a foreign-owned company becomes the regulator? There is an elephant in the room that no one is mentioning, but that is at the back of everyone's mind. It would surely be prudent to take steps to ensure that the Secretary of State or the Minister has reserve powers to prevent that from happening, given the sensitive and pervasive nature of the data involved.

Richard Harrington: The hon. Gentleman makes a very good point. If he will be patient with me for a few minutes, his good constituents in Easington will, I hope, be reassured by what I am about to say about foreign ownership.

The shadow Minister's point was not directly about nationalising the DCC but about whether this kind of organisation would be better off as a not-for-profit publicly owned organisation. That, obviously, was not the Government's policy. The Government's policy is to favour competition while protecting the interests of the consumer.

For those less familiar with the details of the licence than I am and the shadow Minister is—he knows it intimately—I should say that the licence's clear objective is to foster the competitive supply of energy. As a natural monopoly, which is what it is—that is what it would be, whether state owned or privately owned—the price is regulated by Ofgem, so that the costs flowing to consumers are controlled. I felt it worth while to make that point.

The new clause seeks to ensure that the process for awarding the next licence is future-proofed and that the interests of consumers, industry and the country as a whole are protected, irrespective of who is responsible for running the future licensing competition, be it Capita, another company or a not-for-profit organisation.

I would like to highlight two areas. This, I hope, is the answer to the question of the hon. Member for Easington. On the critical national infrastructure point, which this is part of, the shadow Minister mentioned the strategic value—not in money terms but foreign power terms—of this database on all the millions of people who will hopefully have these meters. The Government take the issue seriously.

Under the Enterprise Act 2002, Ministers have the ability to intervene in mergers and takeovers that give rise to public interest concerns, including those relating to national security. That means the Government can ensure that any national security issue arising from mergers or takeovers is correctly investigated and that mitigating measures are put in place.

Our review of the existing regime has highlighted that it needs to be updated to take into account the changing structure and size of companies and the sophistication of this kind of corporate movement, which is why the Government are looking again at how best to scrutinise the ownership of our important infrastructure and have committed to a White Paper next year as the next step in our strategic reforms. That cuts across the new clause.

We recently published a Green Paper review in this area. The proposed reforms have a particular focus on ensuring adequate scrutiny of whether significant foreign investment in our most critical business, which this would be, raises any national security concerns. Those businesses are, by definition, essential to our country and society, and clearly a company or entity carrying out this DCC operation would be, because of the significant data points mentioned.

The aim of the proposed reforms in this area will be to provide Government with the ability to act in circumstances where security concerns are raised. In that context, the Government seek to strike the right balance between protecting national security, having general competition and investment, and being an open and liberal international trading partner, which has worked very well. It is a balance, and the security side is very important.

As far as the EU exit point is concerned, notwithstanding the proposal outlined in the Green Paper, the UK takes its international obligations seriously. We need to ensure that any ownership restrictions are lawful, under not only retained EU law but future trade agreements with countries across the world. We all know that this precise form of agreement between the UK and the EU will be subject to negotiations. It is stating the obvious, but the Government are looking at all possible options. It would therefore not be appropriate at this stage to introduce provisions that may contradict or conflict with the Government's approach to foreign investment. I hope the hon. Gentleman finds my explanation reassuring and will withdraw the amendment.

5 pm

Dr Whitehead: I thank the Minister for his explanation. Perhaps I could seek a slight amount of further clarification on the degree of confidence that, in these particular circumstances, he would be able, in principle, to intervene using the powers he has set out that exist elsewhere in Government. He appears to be saying that powers already exist that would allow him to address the issue, and that new clause 3 is therefore not necessary. Is he confident that in the specialised circumstances pertaining to administration and subsequent events, those powers would be fully applicable in terms of the concerns that I have raised?

Richard Harrington: Yes, I am satisfied, but subject to the fact that the legislation on the security aspect of it is evolving and currently under consultation. From what I have read in the Green Paper and all the work that has

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gone into it, it is precisely the security aspects of the circumstances the hon. Gentleman is describing that would be covered.

Dr Whitehead: I thank the Minister for that clarification. In those circumstances, I beg to ask leave to withdraw the clause.

Clause, by leave, withdrawn.

New Clause 5

REVIEW: USE OF POWERS TO SUPPORT TECHNICAL DEVELOPMENT

'(1) Within 12 months of this Act coming into force, the Secretary of State shall commission a review which shall consider how the extended use of powers provided for in section 1 will support the technical development of smart meters, with reference to—

(a) alternative solutions for Home Area Network connections where premises are not able to access the HAN using existing connection arrangements,

(b) hard to reach premises.

(2) The Secretary shall lay the report of the review in subsection (1) before each House of Parliament."

This new clause requires the Secretary of State to review how the extension of powers support technical development of smart meters.—(Dr Whitehead.)

Brought up, and read the First time.

Dr Whitehead: I beg to move, That the clause be read a Second time.

I am afraid, Mrs Gillan, that you have got me for the rest of the running. New clause 5 relates back to clause 1 and deals with the extent to which, as a result of the extension of time for the exercise of powers, the Minister may consider what licensing may be necessary over the period in respect of particular aspects of the roll-out: in this instance, the use of the home area network and wider area network. Hon. Members will know the distinction: the home area network is the communications that happen between the meter, the house and the immediate external data receiver. The second, the wide area network, relates to the extent to which data receivers can operate in certain areas where population is sparse, there are geophysical difficulties in getting coverage and so on.

In those circumstances, the Government reported in the documents that went before the regulatory committee:

"Smart meters make use of a home area network to link the smart meter to consumer devices such as the in-home display or smart appliances. The technical solutions already being delivered currently apply to approximately 96.5% of premises. In some premises such as apartments in high-rise buildings where there is a long distance between the smart meter and the premises, these solutions are not viable."

Essentially, the Government are saying that they know that under the present comms arrangements, all but 3.5% of properties can reasonably reliably be considered as covered, but there are certain circumstances, such as some basement buildings or high-rise flats, in which the home area network cannot easily communicate its data properly and safely back to the external devices. The Government state:

"It is necessary to provide a technical solution to ensure that all devices in these premises are linked to the smart meter using the home area network. This work is currently being progressed through the Alternative HAN Forum".

I am not sure whether anybody would get very far at parties by saying they were a member of the Alternative HAN Forum, but such a body exists and it brings together suppliers to develop and procure new solutions for those premises.

The Department then states:

"It might be considered appropriate to separately license these activities to provide a greater degree of regulatory control over them."

It is considering whether there is a need for a separate licence arrangement, so far as those activities are concerned, to ensure that, when solutions for that 3.5% of premises come about, they should be properly controlled by licensing within the terms of the roll-out. Similarly, the Department considers that a little over

"99% of premises in Great Britain are capable of connecting to the DCC through the wide area network".

That is the WAN. I do not know if there is an alternative WAN forum as well as an Alternative HAN Forum, but under those circumstances it would clearly be thinking about that 1% of premises that look unlikely to be able to connect through that wide area network. The Department states:

"A different solution may be necessary to provide coverage to smart meters in the remaining hard to reach premises which the wide area network does not cover. It might be considered appropriate to create a licensable activity that relates to arranging the establishment of communications to these properties."

The Department has in mind two licensable activities that may arise when those solutions are under way. I certainly understand, so far as the wide area network is concerned, that technical solutions such as patching—essentially patching in areas that are not available to the wide area network to what is available—are in a reasonably advanced state.

The new clause essentially asks the Minister to consider these two particular issues relating to the licensing of those activities and asks the Secretary of State to commission a specific review to look at how the extended use of powers provided for in proposed new section 1 will support those two areas of development—alternative solutions to the home area network and hard-to-reach premises that the wide area network cannot reach. Rather than there being a feeling that it might be appropriate to create a licensable activity, the new clause will make it rather more formalised by requiring the Secretary of State to actually produce a report on those particular issues and how they can be sorted out as the roll-out progresses.

Clearly, the extension of time for the roll-out gives the Secretary of State the ability to consider the issue in more detail and get, at a reasonably early stage, licensable arrangements, or would-be licensing arrangements, in such a report that would cover those activities in those particular areas. That would also be a sensible addition to the Bill—either securely in the Bill or, alternatively, through an acknowledgement and understanding that this is an issue for the future that needs to be considered and which should come under licensing arrangements, and that work will be undertaken to ensure that that happens.

Richard Harrington: The new clause has two points, as I see it. First, the smart meter system establishes a wireless home area network—HAN—in a consumer's home that links the gas and electricity meters' in-home

display and the communications hub; and the communications hub establishes the network and manages the data across it. As with any wireless technology, various physical factors affect the performance of the HAN, such as what the building is made of or the thickness of the walls, as indeed we find with mobile phones in parts of the Palace of Westminster—in some places it works and in some it does not.

Thangam Debbonaire (Bristol West) (Lab): Mostly not!

Richard Harrington: The hon. Lady has been to my office. She is welcome again any time.

Those things do affect the signal strength in exactly the way that we are joking about—it is actually true. The distance between the various pieces of smart meter equipment will also affect the performance of the HAN—for example, where a meter is located away from the main residence or in the basement of a block of flats—but it is important that the HAN works, to deliver the benefits for consumers, such as the in-home display.

For the vast majority of premises the communications hub provides the necessary home network. In the small number of premises that it does not, some form of alternative will be needed to ensure there is a working HAN. If there is not, how can we ask people to take on smart meters? We have already used our section 88 powers to place obligations on energy suppliers to develop and deliver an alternative to this, which—to continue the use of expressions and abbreviations by the shadow Minister—I would call "Alt HAN." The Alt HAN Forum, the Alternative Home Area Network Forum—believe me, there is one—has been established along with the Alt HAN Company and its board. This gives suppliers the framework to get on and develop the solutions they will need. The forum has developed a commercial strategy, which is being implemented, and a procurement exercise is currently under way, and we expect the pace of delivery to pick up next year. It is an important part of the roll-out and the Department has worked closely with the forum throughout the early stage of its setup, and we are continuing to do so. We are tracking progress through the smart metering implementation programme's governance, and we will monitor on an ongoing basis and determine whether further regulation is needed—so it is ongoing work.

The second point mentioned in the new clause was the arrangement for the so-called "hard-to-reach" premises. Here we are talking about communication of data to and from the premises through the Wide Area Network—referred to so gracefully by the shadow Minster as the WAN—to energy suppliers via the DCC. There are some premises that it may be difficult for WAN communications to reach, due to the location's surroundings, for example in built-up areas with tall buildings, but also in remote and mountainous areas. By the end of 2020, on the basis of existing solutions, we expect that 0.75% of premises will be without DCC WAN and reaching these will be disproportionately expensive, with costs likely to exceed benefits, but it is not a static solution. Through its licence we placed obligations on the DCC to take steps to explore other solutions, which could be used to fill any coverage gap. We have to look for ways to ensure that these premises are serviced, because otherwise they will never get full access to smart services, and we are pushing suppliers to innovate to find solutions that work for them and their customers. We have facilitated an industry-led group for this purpose, to consider possible solutions. Finally, customers without DCC WAN can still benefit from some smart services, such as consumption data shown on the in-home display.

Those are important areas, and I know they are quite technical and not of interest to many people, but I felt it was necessary to take the opportunity to explore them. As I have outlined, we are closely monitoring activity and development—we really are. That is very important and is part of the whole development. I do not consider it necessary to add a separate review process on top of the existing working arrangements, which are all very comprehensive. I hope the shadow Minister finds my explanation reassuring and on that basis will agree to withdraw the amendment.

Dr Whitehead: I do find that reassuring and it is good to know that these processes are under way, albeit under circumstances where we are a little way from where we want to go. I hope that those processes can lead to a good result for what I appreciate are fairly small proportions of the population that one way or another cannot access the HAN or the WAN. Hopefully, we will be able to provide that reassurance that the roll-out really will be the roll-out that we want it to be in terms of the full connectivity of everyone who is being offered a smart meter for the future. That is an important consideration that we have on the table in the latter stages of the roll-out, and I hope that the current developments can reach that happy conclusion. Under those circumstances, I beg to ask leave to withdraw the clause.

Clause, by leave, withdrawn.

New Clause 6

REVIEW: USE OF POWERS TO SUPPORT ROLLOUT OF SMART METERS

"(1) Within 12 months of this Act coming into force, the Secretary of State shall commission a review which shall consider how the extended use of powers provided for in section 1 will support the rollout of smart meters, with reference to—

(a) providing for efficient removal and disposal of old meters,

(b) reviewing the exemptions for smaller suppliers from a legally binding requirement to roll out smart meters.

(2) The Secretary of State shall lay the report of the review in subsection (1) before each House of Parliament."

This new clause requires the Secretary of State to review how the extension of powers supports the rollout of smart meters.—(Dr Whitehead.)

Brought up, and read the First time.

5.15 pm

Dr Whitehead: I beg to move, That the clause be read a Second time.

I think that the Minister's defence may be that the new clause is not properly drafted and therefore he cannot accept it. It is not the case that it is not properly drafted in terms of being in order or making sense, but it states something about smaller suppliers that is not quite right. Nevertheless, I want to set out the sentiment of the paragraph that refers to smaller suppliers and seek the Minister's view on what might be done. We have already had a substantial debate on the subject of paragraph (a)—the efficient removal and disposal of old meters—so I want to concentrate my thoughts and remarks on the second part of the clause.

[Dr Whitehead]

Although it is the case that smaller suppliers—non-obligated suppliers that have fewer than 250,000 customers, including dual-fuel customers—are not as obligated as companies that have more than 250,000 customers in the smart meter roll-out, it is true that all suppliers eventually are obligated to get meters into homes by the end of the roll-out period. Smaller suppliers are not legally obligated in the way that larger suppliers are to reach the milestones and the attainment agreements in place, which I mentioned earlier and which are undertaken through a legal directive from Ofgem. Therefore, it would be quite possible for those suppliers not to install smart meters until the last quarter of the last year of the roll-out, and then rush and install them all, while still meeting their final obligations, because they are not subject to milestones in the way larger suppliers are.

It can be suggested that that non-obligation means that smaller suppliers, by and large, are not very advanced in smart meter installation programmes. Obviously, there is a question about arrangements that smaller suppliers have to make when dealing with their often dispersed group of customers—if, for example, they are responsible for installing five smart meters in Congleton, three smart meters in Biggleswade and six smart meters in Clacton, depending on the distribution of their customers. In those circumstances, they will clearly factor out the installation of those smart meters to a third party. We have already discussed what happens with third-party meter installation arrangements on occasions in this Committee.

Overall, there are a number of not exactly worrying incidents but incidents in which it appears that smaller suppliers are slow off the mark in getting smart meters installed. Clearly, as we approach the point at which we have to get those smart meters in—towards the end of the 2020 period—that could become a significant factor, even though small suppliers of fewer than 250,000 represent about 6.5% of the total market. That is not an insignificant amount, particularly towards the end of the smart meter roll-out period.

The new clause, or certainly its sentiment, indicates that the particular circumstances might be reviewed as the roll-out progresses. The smaller suppliers should be more closely bound into the milestones than is the case at the moment so that we can have reasonable certainty that we are progressing across the board so that, by the time we get towards the end of 2020, we will not have a bit of the roll-out jigsaw that is not in place, possibly to the detriment of the roll-out as a whole. Will the Minister assure me that he is actively considering how that particular problem might be resolved? That would in turn be very helpful in my considerations about the new clause.

Richard Harrington: I thank the hon. Gentleman for his contribution. His new clause would require the Secretary of State to review how the extended use of powers will support the efficient removal and disposal of the old meters that are replaced by smart meters, as well as to review the roll-out obligations applicable to smaller energy suppliers.

As the shadow Minister said, we have discussed the first one at some length. A meeting is being convened with officials from BEIS and DEFRA and, I believe, the hon. Member for Birmingham, Selly Oak. I hope that the shadow Minister will also be available—I hope both Members will be because the purpose is to discuss fully the valid points that they made.

On the exemptions for small energy suppliers, it is true that the pressure is not on them as it is on the larger suppliers, for reasons that have been explained formally and informally. At the moment, the smaller suppliers are growing but they have a very fragmented customer base, as the shadow Minister explained well. That does not mean that they are being let off. In fact, Ofgem asked smaller suppliers for annual reports on progress and, ultimately, will take a view on it and whether it needs to be speeded up, noting that the progress has still to be consistent with taking all reasonable steps to comply with the 2020 regulations. They are not exempt; practically, however, the regulator has gone for the suppliers with the larger consumer bases first, to give the smaller ones a chance to get a mass of membership. In my area, I keep speaking to people who have basically followed the same thought process as me and gone for my smaller supplier, just on the internet. I can see that happening in practice.

In developing the regulations, the Government have been cognisant of the fact that the resources of smaller suppliers and big ones are different. That is a question—a point I have made—not only of the bulk of customers being concentrated but of the necessary IT systems and completion of the requisite security assessment to become a DCC user, which they can do six months later than large suppliers, for good reason.

We have also taken steps to manage the financial burden on small energy suppliers. The policy is to get as many smaller companies into the market as possible, for reasons of competition. The charges—the costs of the DCC data and communications services—are proportionate to an energy supplier's market share. The larger suppliers pay the most and the smallest the least; it is not a flat rate at all. The Government have also made explicit provisions to facilitate an active market for a number of IT service businesses to provide the connection between the DCC and small energy suppliers, rather than allowing large companies to have a monopoly of it.

In conclusion, the design of the smart metering infrastructure means that, regardless of size, an energy supplier can access any smart meter enrolled on the DCC system and can therefore operate on a level playing field with all other energy suppliers. That is constantly under review by Ofgem. I repeat that their progress and their obligations are exactly the same, it is just a question of when and how. I hope the hon. Member for Southampton, Test finds my explanation reassuring and will agree to withdraw the new clause on that basis.

Dr Whitehead: I do find the Minister's explanation reassuring. I hope, however, that what those smaller suppliers are doing is kept closely under review as the roll-out progresses. They are an integral part of the roll-out process, and they should not be able easily to evade their responsibilities to ensure that the roll-out is a success due to their circumstances. The Minister has reassured me that light that will be shone on that progress so I beg to ask leave to withdraw the new clause.

Clause, by leave, withdrawn.

Title

Amendments made: 18, title, line 2, leave out "and".

See the note to amendment 19.

19, title, line 3, at end insert "and to make provision enabling half-hourly electricity imbalances to be calculated using information obtained from smart meters".—*(Richard Harrington.)*

This amends the Bill's long title so that it covers the provision about smart meters made by NC8 to NC10.

The Chair: Before I put the final question, on behalf of the Committee I would like to thank everybody who has looked after us, particularly the members of the Committee, but also the Clerks, *Hansard*, the doorkeeper and the officials who have supported the Government Front Bench team.

Question proposed, That the Chair do report the Bill, as amended, to the House.

Richard Harrington: I would like to thank you, Mrs Gillan, and Mr Gapes for chairing so well and for having such patience with the shadow Minister, me and others. I reinforce what you said about the Clerks and the House authorities who have equally behaved in an exemplary manner. I also take this chance to thank my Bill team, who have lived and breathed this Bill. I commend them for everything that they have done. I thank members of the Committee on both sides for their patience and for all their good intentions to try to make something of the Bill and to improve it.

Dr Whitehead: I add my thanks to the members of the Committee for the positive way in which our debate has been conducted and for the conclusions that we have reached at the end of the Bill, and to you, Mrs Gillan, for your superb chairing of our proceedings and for your patience with me when I no doubt tested you to some considerable extent on matters of arcane constitutional interest. You conducted proceedings with complete impartiality, fairness and concern for the welfare of all members of the Committee. I pay specific thanks to our outstanding Committee Clerks, who have been of tremendous assistance to Opposition Members in getting our material together for the Committee, and who went way beyond the call of duty in ensuring that that happened. I thank them for that considerably.

The Chair: After that joyful moment of consensus, I echo all those remarks.

Question put and agreed to.

Bill, as amended, accordingly to be reported.

5.30 pm

Committee rose.

Written evidence reported to the House

SMB 07 Richard Wiles, Trilliant, Supplementary to oral evidence

SMB 08 Citizens Advice

SMB 09 Richard Harrington, Minister of State for Industry & Energy

SMB 10 SSE