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Public Bill Committee

SMART METERS BILL

Fourth Sitting

Thursday 23 November 2017

(Afternoon)

CONTENTS

CLAUSE 1 under consideration when the Committee adjourned till Tuesday 28 November at twenty-five minutes past Nine o'clock.

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,

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Monday 27 November 2017

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The Committee consisted of the following Members:

Chairs: MIKE GAPES, †MRS CHERYL GILLAN

† Carden, Dan (*Liverpool, Walton*) (Lab)
 † Debonnaire, 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 be 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 in 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 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 prefer to 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 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.

Away from the Committee, the hon. Gentleman and I had a discussion on meter disposal, and I have given it considerable thought. This is not an excuse, but the responsibility for disposal lies with the Secretary of State 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.