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Study says smart meters will cost £16.1bn

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The installation of smart meters across the country could cost more than £16 billion, dwarfing earlier industry estimates, according to figures released by the Government yesterday.

The £16.1 billion estimate was contained in a preliminary study of the economics of smart metering by Mott Macdonald, the engineering firm. It stands in stark contrast to industry claims that the installation of the meters in 45 million homes and businesses – a process which could take up to 20 years – would cost only £6 billion.

Smart meters, which measure exactly how much energy is used at all times, are designed to encourage efficiency. As well as helping consumers to identify ways to reduce their usage and their bills by turning off electrical equipment and using more energy-efficient devices, they enable power companies to introduce off-peak deals similar to those offered by telephone operators.

They will allow consumers to be rewarded for using energy at off-peak times, such as between 1am and 5am, enabling a reduction in the total generating capacity necessary to power the UK. They should lead to more accurate billing by ensuring correct data is sent back to suppliers leading to accurate monthly bills.

The Government, industry and consumer groups agree the UK's existing electricity meters need to be replaced but officials and campaigners have given warning that companies have underestimated the cost of installation, which will be passed on to consumers through their utility bills.

Yesterday the Government edged closer to ordering nationwide use of the new meters by informing energy companies that powers to do so would be included in a new Energy Bill. It stopped short of saying it would definitely back the scheme, pointing out that there were still big questions over cost and complexity and that more studies were necessary before a final decision could be taken.

In a letter to Britain's leading power companies, the Department of Business said that a final decision had been delayed until November because the Government is not yet convinced that the meters will be cost-effective.

"We wish to deepen our understanding and, as far as we can, resolve remaining uncertainties before we take those final decisions," the letter stated.

A spokeswoman for the Department said yesterday that the £16.1 billion figure was the highest estimate of several in the report. They varied according to how the rollout would be implemented, the likely cost of the metering equipment and the timeframe.

Mott Macdonald said that the cost could be only £7.5 billion if the industry took a more gradual approach.

The Energy Bill enters its third reading in Parliament next week, making this the last opportunity for the Government to amend it. "These amendments give Government the powers it needs to take the next steps on smart metering subject to resolving remaining uncertainties," the letter said.

The plan is for companies to begin installing the meters in 2010, with the implementation lasting for years. But the Government and industry cannot agree the cost of the programme. Centrica, the owner of British Gas, said its own studies showed that the rollout could be achieved for £6 billion.

Sam Laidlaw, the chief executive, said: "We are convinced there will be a significant positive return for the UK. This stems from our own detailed research, presented to government."

Clever clocks

Smart meters

— allow consumers and energy suppliers to monitor how much energy consumers are using 24 hours a day

— benefits include greater energy efficiency, more accurate billing and the introduction of off-peak energy tariffs

— if approved by the Government, the plan is for companies to begin installing the meters in 2010, with most homes fitted by 2020

— the Energy Retail Association says the programme would cost about £5 billion, but estimates by Mott Macdonald, an engineering firm, commissioned by the Government says that it could cost far more – as much as £16 billion