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**Dear Graeme,**

**Re: Statutory Consultation – Smart Meter Reporting Requirements**

We welcome the opportunity to respond to the above consultation. This response represents the views of SSE Business Energy (SSE Energy Supply Limited), the non-domestic energy supplier.

We are pleased to see Ofgem's continued engagement with many of the non-domestic challenges highlighted throughout the consultation process for Smart's rollout. At SSE, we believe that Smart is at the heart of a successful future retail market and key to delivering an energy system fit for the future, which will bring security, transparency and flexibility. This is why we have continued to invest heavily in our Smart rollout, continually improving our implementation performance and maximising the benefits of future smart technologies for our customers.

We do, however, retain material concerns around the general policy framework, and we are concerned that discussions of the non-domestic challenges are not adequately reflected in the amended framework. Our detailed responses to each individual consultation question are included in Annex 1 (not confidential), and we have provided our key views below.

**1. Introduction of separate targets for domestic and non-domestic suppliers is appropriate and promotes transparency and fairness in the implementation of the Targets Framework.**

We welcome and support the introduction of separate targets for domestic and non-domestic suppliers. The differences between the two markets and the unique challenges facing the non-domestic market necessitates separate targets. We continue to believe that this is the best way to ensure that the non-domestic rollout progresses at a similar pace to domestic and prevent supplier behaviour favouring domestic installations only.

2. **Separate targets for gas and electricity is appropriate and supports performance assessments.**

We are pleased to see Ofgem's acknowledgement of the separate challenges between installing electricity and gas meters and we believe that retaining separate targets will support performance assessments. As DESNZ has also pointed out, gas installations come with a range of technical complexities and has led to a lower success rate of installations in the non-domestic sector. However, we are concerned that only bringing in additional weighting for Gas Only Premises inadequately reflects the efforts taken to overcome these challenges and risks deprioritising good customer outcomes.

3. **Amended targets for Year 3 and 4 remain unrealistic and do not reflect likely outcomes.**

As per our response to DESNZ's consultation on the Framework (SSE response to Smart Meter Targets Framework: Consultation on minimum installation requirements for Year 3 and Year 4, March 2023), we believe DESNZ's assumptions do not align with real-world experiences and are over-inflated, thus driving unrealistic targets. 2023 targets fail to take into consideration the most recent observations within this consultation, in particular the lack of traction in non-domestic installations by mixed suppliers. We reiterate the need to review 2023 targets and adjust tolerance levels for Year 3 and 4 for non-domestic.

4. **Ofgem's methodology for compliance action is inconsistent, discourages consumer engagement and undermines the policy framework.**

We remain disappointed with the methodology used by Ofgem to select suppliers subject to compliance action and the inconsistent approach taken to the calculation of each supplier's offer. Whilst we understand and support the potential for enforcement action attached to failures of implementation, the lack of recognition of efforts taken to meet these targets, coupled with the reputational damage of being subject to enforcement action, negatively impacts consumer engagement with both a supplier's own rollout and the wider Smart scheme. This results in poor customer outcomes and undermines the credible deterrence effect of any penalty in the non-domestic sector.

Despite the challenges noted above, SSE Business Energy continues to be committed to installing Smart to every customer as soon as practicable. As always, we would be happy to engage further with Ofgem on this topic. We are pleased with the ongoing shared dialogue and engagement, and we are keen to continue working collaboratively with Ofgem.

Yours sincerely,

**Bela Ashworth**

Regulation Analyst – SSE Business Energy

## Annex 1

### **Q1. Do you have any comments or questions on our proposal that the Beginning Of The Year Report reporting requirements should be amended for 2024 and 2025?**

SSE Business Energy has no specific comments on the legal drafting, and it appears to reflect Ofgem's decision to amend the Smart Meter Targets Framework for 2024 and 2025. However, as highlighted throughout this response, we do not fully agree with the policy framework in its current form.

### **Q2. Do you have any comments or questions with our proposal that all suppliers should report target installations for domestic and non-domestic installations separately, where they have both types of customer?**

We are pleased to see Ofgem's consideration of feedback from suppliers to create separate targets for domestic and non-domestic, and we agree that the amended requirements will lead to increased transparency on supplier performance and fairness amongst suppliers. However, we believe that more could be done to ensure this.

#### Transparency

When the Framework was introduced in June 2020, we had limited non-domestic specific data on which to base non-domestic targets and tolerances. It was assumed that the domestic and non-domestic market could be treated the same and that mixed suppliers would apply equal focus to domestic and non-domestic installations. We now know that this is not the case, with the evidence showing that some mixed portfolio suppliers have used the flexibility of the current Framework in a way that slows progress on the non-domestic rollout, posing a risk to benefits for small businesses and public sector consumers.<sup>1</sup> DESNZ has now accepted the "evidence of deprioritisation of the non-domestic rollout in favour of domestic installations".<sup>2</sup>

As we have noted in a previous response to DESNZ's consultation on the Framework (SSE response to Smart Meter Targets Framework: Consultation on minimum installation requirements for Year 3 and Year 4, March 2023), the lack of non-domestic focus amongst mixed suppliers has caused increasing strain on non-domestic only suppliers as it has fallen on us to progress issues and challenges directly, with limited support from mixed supplier peers. Given that 62% of GB demand comes from non-domestic,<sup>3</sup> it is imperative that targets reflect the challenges and that there is transparency amongst suppliers on their implementation performance.

We support Ofgem's decision to create separate targets and amend reporting requirements for Beginning of the Year Reports, however, we remain concerned that the non-domestic targets are largely unachievable and tolerances are not great enough to account for the rollout challenges experienced. The review of Year 1 results have given us considerably more data insights into the non-domestic market than we had in late 2021 yet tolerances have not been adequately adjusted to reflect these learnings.

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<sup>1</sup> [Smart Meter Targets Framework: Government response to a consultation on minimum installation requirements for Year 3 \(2024\) and Year 4 \(2025\). Annex B: Analytical evidence](#), p. 31.

<sup>2</sup> [Smart Meter Targets Framework: Consultation on Minimum Installation Requirements for Year 3 and 4](#), p. 17.

<sup>3</sup> Data is taken from Elexon data flows for gross demand and represents 2022 annual percentage.

## Fairness

It is now well-understood amongst suppliers and recognised within DESNZ that non-domestic installations are subject to additional complexities. Unlike domestic installations, non-domestic faces unique operational and customer considerations that drive uptake in our sector. We believe that these considerations, as well as the diversity of our non-domestic customers, have not been accounted for in DESNZ's models and have resulted in unrealistic targets. This includes the multiple layers of contact within businesses, the complexities of operating via Third Party Intermediaries (TPIs) and Managing Agents and the costs attached to managing that relationship, and the greater shortages of installers skilled in non-domestic practices – these are just some of the factors that can hinder/delay installation.

Whilst we appreciate the amended reporting requirements will promote fairness amongst all non-domestic suppliers and reduce pressure on non-domestic only suppliers, we do not believe that a target-driven framework alone is enough to reach the required levels of Smart penetration to facilitate future market change and still believe that a mandatory approach to installations is needed to realise Smart's full potential.

### **Q3. Do you have any other comments or questions on our proposed licence changes to the Beginning Of The Year Report?**

SSE Business Energy does not have any further comments or questions.

### **Q4. Do you have any comments or questions on our proposal that the End Of Year Performance Report reporting requirements should be amended for 2024 and 2025?**

SSE Business Energy has no specific comments on the legal drafting, and it appears to reflect Ofgem's decision to amend the Smart Meter Targets Framework for 2024 and 2025. We support Ofgem's decision to create separate targets for domestic and non-domestic targets. We agree that the amended requirements will support data collection to accurately record installations and capture relevant information in relation to the new domestic and non-domestic targets suppliers are bound by.

### **Q5. Do you have any comments or questions with our proposal that all suppliers should report target installations for domestic and non-domestic installations separately, where they have both types of customer?**

We agree that the proposed changes to the End Of Year Performance Report reporting requirements seem aligned with the proposed changes to the Beginning Of Year Performance Report reporting requirements. We are optimistic that the amendments to the reporting requirements will provide Ofgem with the relevant and accurate information needed to review future targets.

### **Q6. Do you have any comments or questions with our proposal that all suppliers should report the number of Gas Only installations in the End Of Year Performance Report?**

We support Ofgem's decision to forgo the initial calculation of a single target for suppliers for each fuel and welcome the requirement to meet installation targets for gas and electricity separately. We are pleased that

Ofgem has taken into consideration our feedback that combining gas and electricity performance is illogical, especially considering separate licenses and market differences. We see the proposed changes as largely sensible and recognise that the additional weighting for gas premises is a step towards reflecting the challenges of installing a gas smart meter.

However, this is not enough. We retain the view that a target-driven framework alone is not enough to reach the required levels of Smart penetrated needed to facilitate future market changes, such as Market-wide Half Hourly Settlement and flexibility services. DESNZ has acknowledged that installing a SMETS2 gas smart meter in premises where an existing SMETS2 communications hub is not already installed can be more resource-intensive than other types of installations.<sup>4</sup> Gas installations are typically more technically challenging as they require a higher engineer skillset to fit the hot-shoe device, and these appointments can have an increased chance of resulting in aborts and poor customer outcomes. Many suppliers have thus prioritised targeting dual fuel customers for Year 1 and Year 2 of the Framework, this disproportionately impacts single-fuel suppliers who have a large proportion of customers requiring gas-first SMETS2 installations.

We express the concern that a target-driven framework drives supplier decisions or behaviour that limits progress in rolling out smart meters, especially to the non-domestic sector under the current arrangements. In this context, we would highlight that this point has been accepted by DESNZ:<sup>5</sup>

*these current arrangements pose a risk to benefits for non-domestic consumers if they are continued into the final two years of the Framework. Ultimately all small business and public sector consumers should have energy suppliers that are appropriately incentivised to offer them smart meters and the benefits they provide.*

We implore Ofgem to reflect on its Year 1 approach ahead of the upcoming assessment of Year 2 performance.

#### **Q7. Do you have any other comments or questions on our proposed licence changes to the End Of Year Performance Report?**

We are concerned with Ofgem's review of these performance reports and the methodology used to select suppliers that are subject to compliance action, as well as the inconsistent approach taken to the calculation of each supplier's offer. As noted in Q2, we have more data insights into the non-domestic market now than we did when the Framework was introduced. The fact that majority of suppliers were unable to meet their targets speaks to the inadequacies of the Framework's unrealistic assumptions. There is a need for flexibility which is currently not permitted by the current Framework.

In addition to the inflexibilities of the Framework, suppliers face the challenges of customer engagement, operational issues, technical capacities, and – having failed to meet their arbitrary targets – the additional costs of enforcement action. Not only are suppliers not being recognised for efforts taken to overcome challenges of implementation, but Ofgem's methodology for compliance action disproportionately disadvantages suppliers facing such action. The reputational costs of compliance action and the resulting negative media coverage exacerbates existing engagement challenges. As mentioned in our response to

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<sup>4</sup> [Smart Meter Targets Framework: Government response to a consultation on minimum installation requirements for Year 3 \(2024\) and Year 4 \(2025\)](#), p. 43.

<sup>5</sup> [Smart Meter Targets Framework: Consultation on Minimum Installation Requirements for Year 3 and 4](#), p. 17.

Q2, customer acceptance is a known challenge in the non-domestic sector, with many layers of contact between suppliers and the customer delaying installation. The need for bespoke customer journeys means we cannot make broad assumptions around how (non-domestic) customers will behave. Whilst SSE is fully committed to Smart and keen to support consumers to leverage Smart for its full potential, customer engagement challenges continue to be a barrier and we are concerned that this risks incentivising some suppliers to offload the non-domestic customers who are proving more difficult to engage in order to meet Smart targets and avoid enforcement action. This could result in customers excluded from the market and poor customer outcomes.

As per our previous letter to DESNZ on Smart 2022 Rollout – 2022 Obligation (April 2023), no one wins if each year of the Framework ends with suppliers being penalised for failing to hit targets. It is imperative that Ofgem and DESNZ properly recognise the efforts suppliers have taken to meet these targets. Penalisation has led to a negative external narrative about these suppliers and increases the challenge of engaging customers.