



Making a positive difference
for energy consumers

Gwneud gwahaniaeth gwirioneddol
i ddefnyddwyr ynni

Mr Steven Daniels
Smart Metering Implementation
Programme
Department of Energy and Climate
Change

Date: 19 May 2015

Dear Steven

Ofgem response to DECC consultation on the Smart Meter Rollout Strategy

We welcome the opportunity to respond to your consultation on the smart meter rollout strategy. Ofgem regulates the gas and electricity markets in Great Britain. We have an important role in ensuring that the interests of consumers remain protected both during the transition to smart metering and in the enduring framework. We also play a key role in monitoring and, where appropriate, enforcing compliance with any new regulatory obligations relating to smart meters.

Ofgem continues to support DECC on the smart meter rollout and we agree that key planning assumptions should be made for suppliers and network operators following the revised DCC Live date. This is important in order for industry parties to plan for a successful rollout.

DECC's consultation sets out governmental positions on:

- Driving SMETS2 installations
- Mandating parties to become DCC Users
- Delivering consumer benefits in an efficient rollout – 'Install and Leave'
- The New and Replacement Obligations
- SMETS1 installations.

Below we set out our views on each policy area.

Driving SMETS2 installations

DECC is consulting on introducing an obligation for large suppliers to have installed a minimum amount of SMETS2 meters soon after DCC Live. We support DECC's ambitions to encourage suppliers to start rolling out SMETS2 meters as soon as possible. We would like consumers to enjoy the benefits of smart meters as early as they are able to.

We recognise that this obligation may require some suppliers to accelerate their current rollout plans, as they will need to be SMETS2 ready by a specified date. If suppliers are required to meet a SMETS2 rollout target, they should ensure that they are compliant with wider obligations, such as SMICOP, and that their meters are fully tested and trialed.

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We understand that DECC's proposal requires 1,500 meters or 0.025% of meter points to be installed per supplier, not per licensee. DECC should consider how this licence condition would be drafted in the case of suppliers with multiple licences, or multiple suppliers with one licence. We look forward to working with DECC on the drafting of any licence condition(s).

Mandating parties to become DCC Users

DECC proposes to introduce an obligation mandating suppliers, Distribution Network Operators (DNOs) and Independent Distribution Network Operators (iDNOs) to become DCC Users by a specified amount of time after DCC Live. They also invite views on whether Gas Transporters (GTs) and Independent Gas Transporters (iGTs) should be required to become DCC Users before the end of the rollout.

Suppliers

There are benefits to consumers if suppliers become DCC Users as soon after DCC Live as possible to avoid losing smart functionality on change of supplier. We support DECC in their gathering of evidence to be able to establish the earliest time this can reasonably be.

DNOs and iDNOs

Making DNOs mandated users of the DCC from DCC Live could have some positive outcomes, for example by ensuring that where a SMETS2 meter is enrolled in DCC, the DNO is able to respond to outage alerts. This is beneficial to consumers, as it will mean DNOs are able to respond more quickly when a consumer experiences an outage. Similar benefits would apply to iDNOs becoming DCC users. We are supportive of DECC's position that further engagement should be conducted with iDNOs to establish whether they should be mandated to become DCC Users from DCC Live plus 12 months.

While we recognise that, relative to DNOs, iDNOs may face additional challenges to ready themselves from DCC live and become DCC users, we agree it would be undesirable for consumers to have differential access to network benefits. DECC should however give consideration to additional costs that iDNOs might face (that DNOs would not) and how these might be recovered. As part of any further engagement conducted by DECC on this issue, we would recommend that licence exempt network operators are also considered.

GTs and iGTs

As highlighted in the consultation document, DECC's desire is for GTs and iGTs to become DCC Users by 2020. We agree with this position and consider that the RIIO-GD1 price control set by Ofgem for GTs is supportive of this aim. When setting the control in 2013, the impact of the rollout of smart metering for GTs was uncertain, including timings, their responsibility, costs and requirements on the GTs to become DCC Users. Therefore, RIIO-GD1 includes an uncertainty mechanism (reopener) to allow GTs to request additional funding associated with the rollout of smart metering. We would expect GTs to identify any benefits from the rollout of smart metering and we would only fund the efficient costs.

We consider that iGTs should be able to become DCC Users at a similar time to GTs so that consumers do not have differential access to any potential benefits. Similarly, to the case of iDNOs, there may be merit in further engagement with iGTs to understand if they may face additional challenges to GTs in becoming DCC users. We therefore do not currently think it would be necessary for DECC to impose a DCC mandate on GTs or iGTs.

Delivering consumer benefits in an efficient rollout – ‘Install and Leave’

The consultation proposed the introduction of an ‘Install and Leave’ policy. In some instances, suppliers may choose to install smart meters where WAN coverage is not available at the time. As DECC suggests, for any ‘Install and Leave’ policy there would need to be further consultation on amendments to the current Electricity and Gas Supply Licences and SMICoP, to allow an ‘Install and Leave’ policy to be implemented¹.

We understand that there are still technical obstacles that will need to be overcome in order for an ‘Install and Leave’ policy to be a viable option during the rollout; primarily the availability of handheld terminals capable of commissioning the smart metering system. Therefore, the points made in this section are on the assumption that these technical obstacles can be resolved before suppliers carry out any ‘Install and Leave’ installations.

Ofgem recognises that allowing ‘Install and Leave’ could contribute to a more efficient smart meter rollout. However, we are not confident that ‘Install and Leave’ will lead to positive consumer experiences of smart meters. Consumers will experience reduced functionality from a smart metering system that is not connected to the WAN. Some of the key customer benefits, for example accurate meter reads used for billing and tariff updates would not be available until a WAN connection was established.

We think further consideration is needed of the implications of ‘Install and Leave’ for consumers, and whether the potential efficiency savings associated with being able to install and leave outweigh the potential impact on the consumer experience. We encourage suppliers to consider their customers’ preferences and factor this into the customer journey. It may be necessary to include further ‘Install and Leave’ related obligations in the SMICoP. This could help to ensure consumers have access to the same opportunities to engage with smart meters as they would in a standard installation.

Ofgem agree with DECC that ‘Install and Leave’ for pre-payment tariffs is not likely to be attractive to consumers or suppliers. DECC is minded that pre-payment does not expressly need to be regulated under an ‘Install and Leave’ policy. If suppliers are able in some cases to decide to ‘Install and Leave’ for PPM customers, they should consider whether it is safe and reasonably practicable to do so, as required by the supply licence conditions. Suppliers would need to ensure they were not in breach of their contracts with customers, and that they are fulfilling their SMICoP obligations.

The New and Replacement Obligation (NRO)

The New and Replacement Obligation is an essential stage in the rollout process. It should be implemented by 2020 to ensure there is an enduring smart meter rollout obligation on suppliers.

We agree that switching on the New and Replacement Obligation earlier than 2020 could contribute to the success of the rollout. It is important that technical solutions such as 868 MHz and alternative HAN are available. Unresolved technical challenges such as Multiple Dwelling Units and areas with permanent no-WAN should also be addressed prior to the NRO being switched on.

Even if the NRO were switched on, based on the current drafting of the rollout licence conditions² it is not clear that, other than the NRO, there is an enduring obligation to install

¹ In particular, the Operation Requirement licence condition (SLC 49.4 of the electricity supply licence, and SLC43.4 of the gas supply licence) and 3.4 of SMICoP.

² SLC39 of the electricity supply licence and SLC33 of the gas supply licence

smart meters beyond 2020. For example, a supplier may not complete 100% of the rollout by the end of 2020, and in this situation, there would be no clear licence obligation on the supplier to install a smart meter prior to the traditional meters reaching the end of their lives. We would like to engage with DECC to ensure that the rollout obligation delivers DECC's policy intent.

SMETS1

Managing SMETS1 installations

SMETS1 end date

We agree that there should be a SMETS1 end date after DCC Live. There are benefits to minimising the number of SMETS1 meters. It will reduce system security risks, problems of interoperability and support the benefits case, as full DNO benefits cannot be realised with SMETS1. It is also in consumers' interests to ensure that SMETS1 meters are phased out soon after SMETS2 are available. This will ensure that more consumers can benefit from the additional functions that SMETS2 can offer.

It is important to ensure that DCC communication is stable before the SMETS1 end date, although we are not in a position to say how long this will take. If DECC decide to implement an end date, it is important that suppliers are given as much notice as possible of when this will be. This will allow them to build their plans around this date.

Capping SMETS1 installations

DECC also considered the possibility of introducing a cap on the amount of SMETS1 meters each supplier could install as part of their smart meter rollout obligation. Although Ofgem recognises that many benefits of the smart meter rollout cannot be realised with SMETS1 meters alone, we do not think a 'cap' would be the best way to tackle this issue.

A SMETS1 meter 'cap' would be logistically difficult to implement due to the unpredictable impact of churn on suppliers' portfolios. Some suppliers have already installed, and intend to install, a number of SMETS1 meters, as part of their rollout strategy. A retrospective 'cap' on SMETS1 meters would make it difficult for suppliers to plan accurately. This is because they would need to take into account the impacts of churn and portfolio growth, and hence there will be some uncertainty about how long it may take to reach their 'cap'. In comparison, a SMETS1 end date would be a more certain obligation for suppliers to work towards.

Enrolment and Adoption

We note that DCC has started work on an enrolment and adoption strategy, and look forward to further updates on progress.

Ofgem supports DECC in establishing key planning assumptions for the aspects of the rollout outlined above. This will allow the industry to better plan and prepare up to the end of 2020, leading to a more successful smart meter rollout. We look forward to working on these policies with DECC in the upcoming months.

If you have any questions about this response, please contact Colin Down, colin.down@ofgem.gov.uk.

Yours sincerely,

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Head of Smarter Metering**