



Making a positive difference
for energy consumers

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Dear Colleagues,

Suppliers' responsibilities and restrictions on domestic smart meter installation costs

Ofgem regulates the gas and electricity markets in Great Britain and plays a key role in monitoring and, where appropriate, enforcing compliance with any new regulatory obligations relating to the roll-out of smart meters. When suppliers install meters, they face normal costs for metering equipment and labour. However, suppliers may also face from time to time additional costs, such as the replacement of decaying meter boards. Suppliers queried matters regarding the recovery of smart meter installation costs through the Smart Metering Implementation Programme's Operational Delivery Group.

To provide clarity to consumers and market participants therefore, we set out below the key licence conditions that will apply to any suppliers seeking to recover those costs.

The combined effect of these conditions is that if suppliers want to recover domestic smart meter installation costs, they can only do so across their entire customer base as part of their general tariffs.¹

Licence conditions affecting suppliers' recovery of costs

Gas Supply Licence Condition (SLC) 35.8 and Electricity SLC 41.8 prevent suppliers from charging for domestic smart meter installation costs in a one-off or up front sum.^{2 3}

Suppliers have two routes under the licence to recover their smart meter installation costs from domestic consumers:

- A. Recover the costs across their entire customer base as part of their general tariffs or
- B. Try to recover from individual customers the cost of their specific smart meter installation.

However, the supply licence as currently drafted and in particular the Retail Market Review (RMR) simpler tariff rules, limit suppliers' ability to exercise *Route B*:

¹ There is a limited exception to this. See footnote 2. Suppliers are restricted from creating bespoke tariffs for recovering costs from each consumer by SLC 22B.2(b), which is explained further on the next page (including the ability to obtain a derogation).

² A limited exception to this prohibition is set out in gas SLC 35.6 and electricity SLC 41.9, where a customer is offered a smart meter installation for free, where the equipment does not exceed the minimum requirements of the Smart Metering Equipment or In Home Display Technical Specifications, turns this offer down and elects to have equipment that exceeds the minimum requirements of the Smart Metering Equipment or In Home Display Technical Specifications instead.

³ SLC 35.8 and 41.8 refer to a 'Domestic Installation Code' which can be found at <http://www.smicop.co.uk/>.

- SLC 22B.2(b) restricts licensed suppliers to four domestic core tariffs in any region, per metering arrangement: Recovering an individual consumer's installation costs by adjusting their unit rate and/or standing charge would constitute a new tariff under these RMR rules. A supplier would have to use one of their 4 core tariffs each time they wanted to recover specific costs from a single consumer.
- While Gas SLC 35.8 and Electricity SLC 41.8 prevent suppliers from charging for smart meter installation costs in a one-off or up front sum⁴, SLC 22A.2⁵ only allows gas and electricity suppliers to recover separate charges as one-off fees for specified activities.
- RMR rules also affect the extent to which suppliers must notify customers and obtain their prior consent before they can alter charges for customers on fixed term and evergreen contracts.⁶
- Consumers must not be 'surprised' by installation costs: Both the Standards of Conduct⁷ and smart meter provisions in the Supply Licence require that suppliers fully inform consumers of their options upon offer of a smart meter.⁸ This includes any additional installation costs.

The combined effect of these conditions is that if suppliers want to recover domestic smart meter installation costs, they can only do so across their entire customer base as part of their general tariffs.

Competition and Markets Authority (CMA) Investigation

Following a referral by Ofgem, the CMA are conducting an investigation into the energy market. In their provisional findings, the CMA has highlighted concerns about the impact the RMR simpler tariff rules, including the '4 core tariffs rule' may have on competition⁹. We will continue to work to support the CMA in their investigation as they consider possible remedies to address the impact of this part of the RMR rules on competition, including removing the simpler tariff restrictions. In due course we will need to consider the impacts of any changes to these rules on suppliers' ability to recover installation costs from individual consumers.

Wider considerations beyond cost recovery

Suppliers not being able to recover installation costs from individual consumers does not mean they're entitled to not install a smart meter. The obligation to take all reasonable steps to install smart meters and wider supplier obligations still apply. Suppliers may have to absorb costs associated with these activities.

Yours faithfully,

Rob Church
Partner, Retail Markets

⁴ Aside from the exception set out in gas SLC 35.6 and electricity SLC 41.9.

⁵ When read in conjunction with the definitions set out in SLC 22A.9.

⁶ In particular, SLC 22C and SLC 23.

⁷ SLC 25C.

⁸ SLC 35.2, 35.7 and 35.9 (gas) and 41.2, 41.7 and 41.9 (electricity), which set out requirements for the Domestic Installation Code.

⁹ The provisional findings can be found at <https://www.gov.uk/cma-cases/energy-market-investigation#provisional-findings-and-possible-remedies>.