

To all suppliers and other
interested parties

Email: colin.down@ofgem.gov.uk

Date: 04 January 2017

Consultation: Proposed direction pursuant to condition 44.3 of the electricity supply licence/condition 38.3 of the gas supply licence in relation to large suppliers' roll-out plans

This open letter sets out our proposed amendments to the framework for regulating large energy suppliers with respect to their smart meter roll-out plans, and the setting of annual milestones.¹ We invite your views on our proposals in this letter, in particular on these proposed amendments, the effect of which can be summarised as follows:

- Suppliers will be required to submit a revised roll-out plan with revised annual milestones in January 2018 where new evidence exists that will or could have a material effect on previously submitted annual milestones or the assumed completion rate²; and
- Clarify the link between the revised roll-out plans and the obligation in the supply licences to take all reasonable steps to complete the smart meter roll-out (the "2020 roll-out obligation").

Our proposed amendments recognise that suppliers will develop their approach to the installation of smart meters as the programme progresses. These amendments would create a framework that prompts suppliers to keep their plans under review, maintaining appropriately challenging annual milestones, and ensuring that any revisions are made with a view to completing the 2020 roll-out obligation.

Background

Suppliers are required to roll-out smart meters to all domestic and small business customers by the end of 2020. This will deliver significant benefits to consumers, such as ending estimated billing and giving consumers greater control over their energy use. Smart meters will lay the foundations for a future smarter energy system in GB.

We are committed to the smart meter programme and want consumers to enjoy the benefits from smart metering as early as possible. Supplier planning is key to the success of this programme, and we consider that this is best achieved through effective use of our powers of direction to ensure that suppliers remain focused through to 2020.

¹ The rules around roll-out plans and annual milestones are set out in both the electricity supply licence (condition 44) and gas supply licence (condition 38). Throughout this letter, we are referring to both licences.

² The assumed completion rate refers to the suppliers' assumption on the percentage of their customers that will have a smart meter by the end of 2020.

Our approach to date has been to focus on large suppliers³, requiring them to prepare and submit roll-out plans with binding annual milestones. We have required smaller suppliers to submit roll-out plans, with non-binding annual targets. We do not propose to change our approach for small suppliers at this stage, but are committed to keeping this policy under review. We may consider further use of our powers to direct roll-out plans (with binding annual milestones) from smaller suppliers should we later consider it necessary.

We attach a draft legal direction (see appendix 1) and invite stakeholders to comment on whether they consider it to deliver on our policy intent, as described in this consultation.

Given the narrow scope of our proposals, we do not consider that it would be proportionate to carry out an impact assessment. We have however considered the possible impacts (in particular any additional burden on suppliers), and consider them to be minimal and outweighed by the benefits. We set these out in further detail below.

Our proposed regulatory approach

Proposal 1: Require suppliers to submit revised roll-out plans in January 2018 where new evidence exists that will or could have a material effect on previously submitted annual milestones or the assumed completion rate

We expect suppliers to gain experience as their roll-out of smart meters' progresses. This experience will likely have a bearing on the assumptions underpinning their current roll-out plans and the annual milestones within it. Currently the licence allows suppliers to revise their roll-out plan and annual milestones up to March 2018. However, suppliers are not explicitly *required* to revise their roll-out plan if the evidence upon which their assumptions were based, significantly changes. We consider that suppliers should be required to revise their roll-out plan where new evidence exists that will or could have a material effect on previously submitted annual milestones or the assumed completion rate. Where applicable, suppliers would be required to submit a revised roll-out plan on 31 January 2018.

Suppliers would only be required to submit a revised roll-out plan where they have, or could be expected to have, knowledge or information that will or could have a material effect on the annual milestones or the assumed completion rate in their most recently submitted plan. We consider that suppliers are best placed to determine the impact of new evidence on their assumptions, and therefore whether something is material for the purposes of submitting a revised roll-out plan. We have therefore deliberately not specified a materiality threshold in the proposed direction. We expect suppliers to take into account examples of materiality thresholds elsewhere, for example, the thresholds relating to the enforcement of supplier annual milestones in the licence.

These proposed amendments will ensure that suppliers continue to have in place roll-out plans that accurately reflect their capacity to install smart meters as their experience of the roll-out increases. This experience could relate, for example, to the impact of certain challenges suppliers had previously factored into their annual milestones (such as the productivity of their meter installers, number of aborted installations etc.).

We consider that January 2018 is an appropriate point for the submission as this aligns with the date that suppliers are currently able to revise their roll-out plan and annual milestones, without needing to seek the consent of the Authority to do so.

Through our monitoring activities (including regular meetings with suppliers), we will know when the evidence unpinning certain assumptions has changed.

³ 'Large supplier' is a supplier that, together with its affiliates, supplies 250,000 or more: gas customers; or electricity customers; or dual fuel customers.
https://www.ofgem.gov.uk/sites/default/files/docs/2014/10/final_proposals_on_supplier_reporting_0.pdf

Where a supplier submits a revised roll-out plan in 2018 (with revised annual milestones for 2018 and 2019) and we consider that the reasons given for the annual milestones are not duly justified, then the milestones from their previous roll-out plan in respect to 2018 and 2019 would continue to remain binding and enforceable (until the supplier provides a revised roll-out plan with duly justified reasons for the annual milestones within it).

Proposal 2: Clarify the link between the revised roll-out plans and the 2020 roll-out obligation

Suppliers must take all reasonable steps to ensure that a smart meter is installed on or before 31 December 2020 at each domestic premises and small business premises. It is important that the roll-out plans submitted by suppliers ensure that suppliers are focused on achieving this requirement. These proposed amendments would clarify the link between the revised roll-out plans submitted and the 2020 roll-out obligation. These amendments would apply to revised plans submitted in accordance with the proposed direction as well as plans submitted in accordance with pre-existing mechanisms in the supply licences.⁴

Impact of our proposals on suppliers

We have considered whether these proposed amendments will place an additional burden on suppliers. The changes will place emphasis on suppliers keeping their key assumptions under review, which may have a resource burden, and this may require suppliers to revise a roll-out plan where previously they may have decided not to.

The impact of these proposals are likely to be minimal, as we consider that suppliers should already be keeping their key assumptions under review so as to ensure their compliance with the 2020 roll-out obligation. Most suppliers indicated during discussions with us that they planned to keep their internal plans under review, with the potential of submitting a revised plan in 2017.

Consultation question

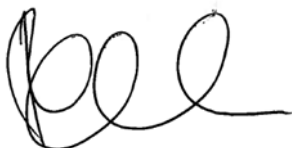
1. Do you consider that the draft legal direction (at appendix 1) delivers on the policy intent described in this consultation letter?

Next steps

This consultation closes on 15 February 2017. Please send responses to colin.down@ofgem.gov.uk. Responses will be published on our website unless marked as confidential. We intend to publish our decision in the first half of 2017, including any subsequent directions.

If you have any queries about this letter, please contact colin.down@ofgem.gov.uk.

Yours faithfully,



Rob Salter-Church
Partner, Consumers and Competition

⁴ Condition 44.6 of the electricity supply licence and condition 38.6 of the gas supply licence.