

To all interested stakeholders

Email : [Smartmetering@ofgem.gov.uk](mailto:Smartmetering@ofgem.gov.uk)

Date: 26 June 2017

## **Decision to amend the framework for regulating large energy suppliers with respect to their smart meter rollout plans, and the setting of annual milestones<sup>1</sup>**

This letter sets out our decision to amend the framework for regulating large energy suppliers with respect to their smart meter rollout plans, and the setting of annual milestones.<sup>2</sup>

Following consideration of the responses received to our January consultation, we have decided to proceed with the proposed amendments by issuing a further direction, annexed to this letter.

The effect of these changes can be summarised as follows:

- Suppliers will be required to submit a revised rollout 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 rate<sup>3</sup>; and
- We will clarify the link between the revised rollout plans and the obligation in the supply licences to take all reasonable steps to complete the smart meter rollout (the "2020 rollout obligation").

This decision recognises that suppliers will develop their approach to the installation of smart meters as the programme progresses. These amendments create a framework that prompts suppliers to keep their plans under review, maintain appropriately challenging annual milestones, and ensure any revisions are made with a view to completing the 2020 rollout obligation.

We have made one amendment to the form of the direction consulted on in January 2017 to reflect the responses we received. This is a minor change to the drafting of the direction to give suppliers some flexibility on the timing of the submission of revised rollout plans in 2018, and as such we do not consider there to be a need to further consult. We explain this change in more detail later in this letter.

### **Background**

Suppliers are required to take all reasonable steps 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

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<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/consultation-large-supplier-smart-meter-rollout-plans-and-annual-milestones-draft-legal-direction>

<sup>2</sup> The rules around rollout 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.

<sup>3</sup> 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.

their energy use. Smart meters will lay the foundations for a future smarter energy system in Great Britain.

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 the use of our powers of direction to ensure that suppliers remain focused through to 2020 and beyond.

Our approach focuses most attention on large suppliers<sup>4</sup>, requiring them to prepare and submit rollout plans with binding annual milestones. We have required smaller suppliers to submit rollout plans with non-binding annual targets.

On 4 January 2017, we published a consultation on our approach to regulating large energy suppliers with respect to their smart meter rollout plans, and the setting of annual milestones. This consultation closed on 15 February 2017.

### **Responses to our consultation**

We received 13 responses to the consultation. Respondents reacted positively to our proposals, broadly agreeing with our proposed amendments. A number of respondents provided comments on the proposals, which we discuss below.

#### ***Proposal 1: Require suppliers to submit revised rollout 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***

##### **Revising rollout plans in 2019**

Some respondents noted that going into 2018 there would be continued uncertainties around the rollout. As such, five respondents recommended suppliers should also be able to revise their rollout plans in January 2019 without first seeking Authority permission to do so. One respondent recommended an extension to March 2019.

Most respondents on this point recognised that the licence already provides the flexibility for suppliers to submit a revised plan after 2018 with agreement from the Authority. However, some respondents were of the view that Authority agreement should not be necessary before submitting a revised plan.

We do not consider that it is appropriate to remove the requirement for suppliers to seek our approval before submitting a revised plan after 2018. We consider that this requirement serves as an important regulatory control on the submission of revised plans, and is not a barrier to those suppliers with legitimate interest in submitting a revised plan where their underlying data has changed.

##### **Submitting a draft rollout plan in October 2017**

One respondent recommended that Ofgem require draft plans to be submitted 3 months before the deadline for revised plans in January 2018. They considered that provision of draft submissions would better facilitate discussion around the programme and its robustness.

We have used the submission of draft plans in the past to assist suppliers' understanding of the level of detail that would be required in their final plans. At this stage, we would expect large suppliers to be confident in the level of detail expected in their rollout plans. We therefore do not consider it necessary or proportionate from a resource perspective for

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<sup>4</sup> '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](https://www.ofgem.gov.uk/sites/default/files/docs/2014/10/final_proposals_on_supplier_reporting_0.pdf)

suppliers to submit a draft plan ahead of a formal submission. Please note that we will continue to engage with suppliers throughout the rollout.

#### Defining 'material'

In our consultation we proposed suppliers should be required to revise their rollout plan where new evidence exists that will or could have a 'material' effect on previously submitted annual milestones or the assumed completion rate. We considered 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 rollout plan. As such, we deliberately did not specify a materiality threshold in the proposed direction. However, when deciding what is 'material' for the purposes of the revised submission framework, 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.

Two respondents had questions on what would be considered as 'material'. For example, one respondent suggested that 'material' should be clearly defined, suggesting that it could include where there is a material impact on other industry parties.

We would expect suppliers to be mindful of the impact of their activities on other industry parties. However, when suppliers submit rollout plans, they are setting annual milestones that are legally enforceable. 'Material' in these circumstances is specifically related to the impact on the deliverability of annual milestones. For example, if a supplier's assumptions around consumer engagement with smart metering changed in light of new evidence, then we might expect them to revise their annual milestones in light of that evidence.

#### ***Proposal 2: Clarify the link between the revised rollout plans and the 2020 rollout obligation***

##### Taking 'all reasonable steps'

One respondent suggested that the legal direction should address the situation where a revised plan did not show completion of the rollout, despite the carrying out of all reasonable steps to achieve that aim.

Given that the obligation is an 'all reasonable steps' one, there is already flexibility built into the regulatory framework to recognise that it may not be possible for each supplier to install a smart meter in 100% of their customers' homes by the end of 2020. As such, there is no need to provide for this expressly in the legal direction.

#### ***Consultation question: Do you consider that the draft legal direction (at appendix 1 of the consultation letter) delivers on the policy intent described in this consultation letter?***

##### Seven-day window

Where a supplier revises their rollout plan, the licence allows a 7-day window in which to do so. Three respondents asked us to clarify whether the draft legal direction should also include a 7-day window.

We agree that the legal direction should align with the licence, and as such, we propose to change the legal direction to do so.

##### Small suppliers

One respondent asked Ofgem to again consider whether small suppliers should be subject to the same milestone requirements as larger suppliers (specifically to have binding annual milestones, as opposed to non-binding annual targets).

As we stated in the consultation letter, we do not propose to change our approach for small suppliers at this stage, but we are committed to keeping this policy under review.<sup>5</sup>

### ***Other questions***

Some network companies expressed an interest in Ofgem publishing a high-level summary of suppliers' rollout plans. We note that industry codes already provide ways for sharing some rollout data, and therefore we recommend that network companies continue to engage through the industry codes.

### **Our decision**

Following consideration of the responses received to our January consultation, we have decided to proceed with the proposed amendments by issuing a further direction.

Accordingly, please find annexed to this letter, a direction amending the framework for regulating large energy suppliers with respect to their smart meter roll out plans, and the setting of annual milestones.

Yours sincerely

**Jacqui Russell**  
**Head of Smarter Metering**

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<sup>5</sup> Paragraph 2.56 to 2.64 of our [October 2014 decision on rollout reporting](#) sets out more details on small suppliers' reporting requirements, including where they become a large supplier.