



Making a positive difference  
for energy consumers

To all suppliers and other  
interested parties

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Dear Stakeholder,

### **Smart Meter Rollout: Open letter on Energy Suppliers' Progress, Future Plans and Regulatory Obligations**

Energy suppliers are required to take all reasonable steps to roll out smart meters to all their domestic and small business customers by the end of 2020<sup>1</sup>. Smart metering brings immediate benefits to consumers, helping them to take control of their energy usage, and is a key enabler for the transition to a more flexible energy market and the move to a low carbon economy. Ofgem's role is to provide regulatory oversight of this rollout, ensuring consumers' interests are protected, and to monitor and investigate where we believe a supplier may be in breach of the relevant licence obligations<sup>2</sup>.

This letter sets out our observations on the submissions we received from larger suppliers on their rollout activity in 2018 and their plans for 2019 and 2020. However, these observations are relevant to all suppliers, regardless of size. We have previously published our high-level observations on what we expect from suppliers in demonstrating compliance with the smart meter rollout obligations and this letter adds to those observations<sup>3</sup>. The onus remains on all suppliers to take all reasonable steps to meet the 2020 rollout obligation.

When considering any enforcement action for non-compliance, we are likely to consider how suppliers have taken account of and acted upon the observations we have published. The observations made here (and in previous letters) should not be considered an exhaustive list of all the steps that could reasonably be taken by an individual supplier.

### **Overall Progress in 2018**

For most larger suppliers<sup>4</sup>, the number of smart meters in their portfolio at the end of the year was in line with, or inside, the allowed tolerance of the annual milestones for 2018.

However, some larger suppliers failed to meet the annual milestones they had set for themselves and were outside of the 10% tolerance allowed<sup>5</sup>. Since failure to meet their annual milestones is a breach of their licences<sup>6</sup>, we carefully examined the reasons suppliers put forward for the breach. The reasons given were varied and in all cases specific to the

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<sup>1</sup> Electricity Supply Licence SLC 39 and Gas Supply Licence SLC 33

<sup>2</sup> Enforcement action will be considered where an investigation identifies a breach in accordance with our [Enforcement Guidelines](#)

<sup>3</sup> Ofgem open letters in [January 2016](#), [November 2016](#), [June 2017](#), [December 2017](#), [May 2018](#) and [October 2018](#).

<sup>4</sup> Suppliers with over 250,000 customers are subject to the larger supplier rollout reporting framework.

<sup>5</sup> [Open letter December 2017](#)

<sup>6</sup> Electricity Supply Licence SLC 44 and Gas Supply Licence SLC 38

individual supplier. Among the reasons provided by suppliers for missing their milestones were challenges with: customer engagement, third-party contracts, remote upgrades of non-compliant SMETS1 meters; and the transition from SMETS1 to SMETS2.

In deciding whether to pursue action, we had overall regard to our Enforcement Guidelines<sup>7</sup> including the following factors:

- The point at which the supplier became aware that it was tracking behind in terms of meeting one or both of its milestones;
- What actions the supplier took to try to mitigate the impact of the issues the supplier was experiencing; and
- The extent to which the issue was within of the supplier's control.

Following our evaluation process, SSE agreed to pay £700,000 to the Consumer Redress Fund administered by the Energy Savings Trust after it missed its target to install gas smart meters for customers in 2018<sup>8</sup>. It reached its gas target for 2018 in February this year, less than two months after the deadline. Due to the steps taken by SSE, Ofgem decided not to take formal enforcement action.

In 2018, suppliers had to manage the transition from SMETS1 to SMETS2, which began in earnest towards the middle of the year. The SMETS1 end-date for credit meters and the deadline for remote upgrades of non-compliant SMETS1 meters was 5 December 2018. Some suppliers were granted derogations on the SMETS1 end-date for credit meters which ran until the end-date for SMETS1 pre-payment meters on 15 March 2019<sup>9</sup>. Some suppliers have advised that they continue to install SMETS1 meters after the end-date. We set out our expectations regarding these meters and the transition to SMETS2 below.

## Looking Ahead to 2019 and 2020

In early 2019, we received rollout plans from thirteen larger energy suppliers<sup>10</sup> which covered suppliers' plans for their rollout activity in 2019 and 2020. In assessing these plans, we sought to ensure that the plans were duly justified in line with the licence requirements<sup>11</sup> and underpinned by a strong evidence base. This was critical in order for us to be confident that suppliers are able to deliver in line with their plans and that the plans demonstrate that suppliers are on track to have taken all reasonable steps across the whole rollout period. However, we will make this final assessment once the deadline for the current rollout obligation has passed at the end of 2020.

Following scrutiny of the rollout plans, we had significant concerns with six plans and invited revised submissions. We received revised submissions from all six suppliers in May. Five of those plans are now in place and define the binding milestones that those suppliers will be held to account against in 2019; the plans also set targets for 2020. However, we still had significant concerns about the revised plan submitted by one supplier and discussions are ongoing. All suppliers received feedback on their plan and, as suppliers enter the remaining eighteen months of the current rollout obligation, we expect suppliers to be taking that feedback into account.

At the end of January 2020, suppliers will be required to report on progress in 2019 in line with their licence requirements<sup>12</sup>. We are, however, not expecting any large suppliers who submitted rollout plans to us this year to submit again in January 2020. Suppliers who were above the 250,000 customer threshold for the first time on 1 April 2019 will be required to submit a rollout plan in January 2020 which should cover the final year of the current rollout

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<sup>7</sup> [Enforcement Guidelines](#)

<sup>8</sup> [SSE Payment to Consumer Redress Fund](#)

<sup>9</sup> [SMETS1 End-Date Derogations](#)

<sup>10</sup> [Ofgem Decision on Supplier Reporting](#)

<sup>11</sup> Electricity Supply Licence SLC 44 and Gas Supply Licence SLC 38

<sup>12</sup> Electricity Supply Licence SLC 44 and Gas Supply Licence SLC 38

obligation. It is clear that smart meters will need to continue to be installed beyond 2020. BEIS are considering the post-2020 policy and regulatory landscape for smart meters.

Below, we set out our expectations in response to key areas highlighted in this year's rollout plans submissions.

### Customer Eligibility

Suppliers are not yet able to offer smart metering to all customers due, in part, to individual suppliers' commercial decisions and, in part, to the required technical solutions not yet being available. Industry is still experiencing the following technical constraints: the full range of meter variants are not yet available from meter manufacturers, HAN coverage is not available in all premises, a SMETS2 pre-payment solution is not yet available to be deployed at scale and some energy suppliers do not yet have SMETS2 meters that meet the required Radio Frequency (RF) limits in all regions.

We note that these issues are being addressed and that suppliers expect many of the technical constraints will be resolved as we enter the latter half of 2019. We expect suppliers to be exploring where plans can be brought forward, engaging with their supply chains to drive resolution of issues at pace, and working collaboratively to drive progress where that is appropriate within the bounds of Competition Law<sup>13</sup>. We note that some suppliers have progressed further on eligibility than others and expect this to be a priority for all.

With regards to customers whose metering currently uses the Radio TeleSwitching system (RTS), we expect suppliers and network companies to work together to identify and develop solutions, and to mitigate risks to customers during the transition away from the RTS service.

### Customer Engagement

Customer engagement remains a crucial challenge for suppliers to tackle and is critical to the success of the rollout. As we enter the last eighteen months of the current rollout obligation and with much progress having been made, we expect to see suppliers step up their efforts in this area. This is equally important for both domestic and non-domestic consumers.

As noted above, eligibility is due to open up throughout 2019 and into 2020. In practice, this means that suppliers will have new tranches of customers whom they have yet to contact. Over the last couple of years, suppliers have gained significant customer engagement experience which we would expect to see them apply to these customer groups. We also expect suppliers to be actively considering how their customer engagement strategy might differ for these newly eligible customers in order to maximise conversion.

As noted in previous open letters, there is no 'one size fits all' approach to consumer engagement. We expect suppliers to deploy a variety of channels and continuously test, learn and adapt their engagement strategies. Suppliers should monitor the effectiveness of different channels, approaches, and propositions to develop customer journeys that are appropriate to specific customer cohorts. This includes the use of more sophisticated customer segmentation and tailored messaging, taking into account information gathered about customers' motivations, needs and concerns, and using this to refine the consumer engagement journey. We also expect to see suppliers adopting and implementing best practice approaches identified by BEIS and other partners such as Smart Energy GB (SEGB).

While consumers are not obliged to have a smart meter installed, suppliers should consider appropriate re-contact strategies based on customers' preferences, contact history and reasons for not previously accepting a smart meter. As previously stated, overly repetitive and coercive approaches, as opposed to innovative and tailored re-contact strategies, can be counterproductive in delivery of the rollout obligations.

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<sup>13</sup> [Guidance note on cooperation between competitors](#)

We also expect suppliers to be working constructively with SEGB to build on the work that has already been done to raise wider awareness about smart meters. Suppliers play a vital role in setting the direction of the work of SEGB through the Performance Management Framework (PMF) Forum. Suppliers should be actively and constructively engaging in this forum looking to optimise SEGB's contribution to the delivery of the rollout and benefits realisation.

### Installations

Generally, the 2019 submissions showed that suppliers have secured the capability, capacity and flexibility they need from smart meter installers to support delivery of their rollout plans for the remaining rollout period. Third parties play a crucial role for suppliers in many areas of the rollout, but suppliers remain accountable under their licence for delivery, including the quality and safety of the installation process. Suppliers must ensure that they are able to fulfil demand for smart meters, including quickly and safely increasing installer resource in light of any increase in demand as a result of their engagement activity. We would not expect installer capacity to be a constraint on the rollout for any supplier.

Maximising successful installation is critical and suppliers should have plans in place to reduce installation abort rates. This includes installer aborts due to technical issues, for example, by ensuring relevant questions are asked during appointment booking, ensuring that installers have the required technical support from the back office, and applying lessons learned. In the 2019 submissions, suppliers outlined high customer aborts as a reason for an increase in the overall abort rates. We expect suppliers to be working to minimise customer aborts by ensuring they have a comprehensive 'keep warm' strategy in place right from the point of a customer booking an appointment through to the day of the installation visit. Furthermore, we continue to expect suppliers and network distributors to work together to minimise the disruption for customers where network issues are identified at installations.

In any situation where an installation has been aborted we expect suppliers to have in place appropriate arrangements to keep the customer engaged and identify actions that enable installation to be achieved successfully.

### SMETS1 End-Date

In this year's rollout plan submissions, some suppliers indicated that they would be continuing to install some SMETS1 meters after the SMETS1 end-date<sup>14</sup> of 5 December 2018 for credit meters and 15 March 2019 for pre-payment meters. Any SMETS1 meters installed after the end-dates, or outside the allowed derogations, will not count towards a supplier's milestones or 2020 targets. Where a supplier decides to proceed with a SMETS1 installation after the end-date, we expect a record to be kept of why the supplier could not install a SMETS2 meter and why they considered it to be in the best interest of the customer for the SMETS1 installation to proceed. We also note that we expect suppliers to be enrolling all SMETS1 meters that are eligible into the DCC, regardless of when they were installed.

### Price Cap

We would like to reiterate to suppliers our position that, while inefficient suppliers may need to improve their efficiency, the default tariff cap must not be used as justification for reducing plans to install smart meters.

In developing the methodology for the smart allowance in the Default Tariff Cap, we provided sufficient allowance for an efficient supplier to continue the rollout of smart metering in line with its smart metering obligations.

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<sup>14</sup> [Government Response to Consultation on SMETS1 End-Date](#)

## Reminder of other regulatory obligations

### Smart Metering Installation Code of Practice (SMICoP)

The Smart Metering Installation Code of Practice (SMICoP) aims to ensure that consumers receive a high standard of service throughout the installation process. Supplier compliance with the SMICoP requirements is mandatory, and is crucial in ensuring a good overall consumer experience. Responsibility for meeting the requirements remains with the supplier even when elements of the installation process are contracted out to other parties. To evidence compliance, suppliers are required to undergo an initial independent audit, self-certify annually, and survey a sample of customers on their installation experience. Further information can be provided by ElectraLink<sup>15</sup>.

Under SMICoP, suppliers must offer tailored energy efficiency advice at the installation visit<sup>16</sup>. We have highlighted concerns with compliance with this requirement in the past<sup>17</sup> and, in early 2019, we asked six suppliers to put performance improvement plans in place for delivery of energy efficiency advice. We are monitoring their progress, and maintain a rolling review of the performance of all suppliers against their obligations.

### SMETS1 Enrolment

From this year, suppliers will be able to start enrolling SMETS1 meters into the DCC. Once the enrolment service becomes available, suppliers are required to enrol SMETS1 meters<sup>18</sup>. Enrolment of SMETS1 meters is of critical importance as it is the route to resolving the switching issues experienced by some SMETS1 customers, enabling them to realise the enduring benefits of smart metering. We expect suppliers to be planning for the timely testing of systems and enrolment of SMETS1 meters, in line with the licence requirements.

In preparation for the enrolment of SMETS1 meters, we expect suppliers to be considering how and what they should be communicating with customers. We remind suppliers that they must treat customers fairly, part of which means providing complete, accurate information that is not misleading (in terms of information provided or omitted)<sup>19</sup>. In developing their communications approach, suppliers should have regard for good practice being developed by BEIS, with industry.

### New and Replacement Obligation (NRO)

On 30 June 2019, the New and Replacement Obligation (NRO) will come into effect in line with the Direction issued by the Secretary of State<sup>20</sup>. The NRO requires energy suppliers to take all reasonable steps to install a compliant smart meter (i.e. a SMETS2 meter) wherever a meter is replaced or where a meter is installed for the first time (e.g. in new premises). This drives important benefits such as full interoperability without the risk of a meter change or temporary loss of smart functionality should the customer switch to a new supplier.

However, as previously noted, suppliers are not yet able to offer SMETS2 meters to all customers or in all situations. We expect industry to drive the development of the full range of SMETS2 solutions as soon as possible so as to minimise the number of cases where it is not possible to install a meter compliant with the extant version of SMETS.

In the meantime, we acknowledge that there will be instances where suppliers or their representatives (including network companies in the case of an emergency metering situation)<sup>21</sup> may not be able to offer or install a SMETS2 meter, despite having taken all

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<sup>15</sup> [SMICoP](#)

<sup>16</sup> [Section A 3.7.1 of SMICoP](#)

<sup>17</sup> [Open letter November 2016](#), [Open Letter May 2018](#).

<sup>18</sup> Electricity Supply Licence SLC 54 and Gas Supply Licence SLC 48

<sup>19</sup> Electricity and Gas Supply Licence Condition SLC 0

<sup>20</sup> [Government Response to NRO Consultation](#)

<sup>21</sup> [Open letter January 2018](#)

reasonable steps to do so, and will judge that it is in the best interests of the customer to proceed with a traditional, SMETS1 or Advanced meter installation. In such situations, Ofgem expects suppliers to be able to provide evidence to Ofgem that they have taken all reasonable steps to install a SMETS2 meter and why they judged it to be in the best interest of the customer to proceed with a traditional, SMETS1 or Advanced install.

### Operational Licence Condition (OLC)

The Operational Licence Condition (OLC)<sup>22</sup> requires suppliers to take all reasonable steps to ensure that they are operating any smart meter in their portfolio. For SMETS1 meters that a supplier has installed themselves, the supplier should be operating these meters in smart mode and enrol these meters in line with their enrolment obligations as discussed above. For SMETS1 meters a supplier has gained on churn and where it is not currently able to, the supplier must operate the meter once it has been enrolled into the DCC. In addition, all SMETS2 meters should be operated once installed.

As the rollout of SMETS2 meters progresses and SMETS1 meters begin to be enrolled, it is of critical importance that all suppliers are not only DCC users, but also live on the DCC systems, and able to operate all meters in line with their obligations. This includes meters which suppliers gain on churn. Some suppliers are not yet fully compliant with these obligations, which is a breach of their licence. We are addressing this issue directly with those suppliers, consistent with our Enforcement Guidelines and, for example, issued a Final Order<sup>23</sup> against Avro Energy for its failure to comply with the DCC User Mandate<sup>24</sup>.

### Meter Asset Arrangements on Change of Supplier

When gaining a smart customer, the new supplier is expected to reach a commercial agreement with the Meter Asset Provider (MAP), who owns the meter, or otherwise return the meter to the MAP.<sup>25</sup> This should take the form of a written agreement where both parties mutually recognise their rights and responsibilities in relation to the relevant device. These agreements should be negotiated honestly and fairly so that costs and risks are appropriately allocated among industry participants. We understand that progress in entering into these commercial agreements is often slow and we are keen to see industry parties working together to resolve issues.

We have aimed to provide constructive feedback to suppliers and the market more generally to support the realisation of the benefits of smart metering for consumers through suppliers' compliance with their obligations. As the rollout progresses we will continue to monitor the progress of all suppliers with respect to their licence obligations.

Yours faithfully,

**Jacqui Russell**  
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<sup>22</sup> Electricity Supply Licence SLC 49 and Gas Supply Licence SLC 43

<sup>23</sup> [Avro Energy Final Order](#)

<sup>24</sup> As of 14 June 2019, Avro Energy is a DCC User and have met the requirements of the final order

<sup>25</sup> Electricity Supply Licence SLC 50 and Gas Supply Licence SLC 44