



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

Current smart meter rollout context

On 16 June 2020, we published a letter¹ to suppliers setting out our regulatory expectations in light of the impacts of COVID-19 on customers, staff and the supply chain. In the letter, we confirmed that we now expect suppliers to be recommencing smart meter installations where they have yet to do so, in line with public health and Government guidance.

On 18 June 2020, Government published its decision² to extend the existing rollout obligation for six months as well as its decision on a new regulatory framework for the smart meter rollout from 1 July 2021. Energy suppliers will now be required to take all reasonable steps to roll out smart meters to all their domestic and small non-domestic customers by 30 June 2021³.

In light of these developments, we are publishing our annual letter on smart meter rollout progress, future plans and regulatory obligations.

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 delivery of net zero emissions by 2050. Ofgem's role is to provide regulatory

¹ [Updated Regulatory Flexibility Letter](#)

² [Government Decision](#)

³ Electricity Supply Licence SLC 39 and Gas Supply Licence SLC 33

oversight of this rollout, ensuring consumers' interests are protected, and to monitor and engage with suppliers where we believe a supplier may be in breach of the relevant licence obligations⁴.

This letter sets out our observations on the submissions we received from larger suppliers on their rollout activity in 2019 and looks ahead to the ongoing rollout. 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 observations⁵.

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.

Smart meter rollout regulatory framework

Following BEIS' recent announcement, there are now two sequential obligations driving the smart meter rollout. Suppliers must comply with both.

All suppliers must take all reasonable steps to roll out smart meters to their domestic and small non-domestic customers by 30 June 2021 (previously 31 December 2020). For larger suppliers, we will be asking for updated rollout plans to reflect the extension to the obligation. We intend to issue a simplified rollout plan template for submission in November 2020, and will share draft templates and a draft Request for Information with larger suppliers in July. In due course, we will engage with industry on the required reporting for the end of the current obligation and, following the June 2021 deadline, we will assess whether suppliers have taken all reasonable steps across the whole of the rollout period.

From July 2021, suppliers must comply with a new regulatory framework for the rollout as confirmed by BEIS on 18 June 2020. The framework will set binding annual installation targets for suppliers and will run until mid-2025. In autumn 2019, we consulted on proposals for reporting requirements to be put in place for the new obligation. Now that Government has published its decision, we will review our proposals and publish a decision in due course.

Below, we have set out some observations on suppliers' progress and our expectations looking ahead to the end of the current obligation and beyond.

⁴ Enforcement action will be considered where an investigation identifies a breach in accordance with our [Enforcement Guidelines](#)

⁵ Ofgem open letters in [January 2016](#), [November 2016](#), [June 2017](#), [December 2017](#), [May 2018](#), [October 2018](#) and [June 2019](#).

2019 Progress

In January 2020, we received progress reports from all of the larger suppliers reporting against their binding annual milestones for 2019. Two of the key challenges raised by energy suppliers in 2019 were: customer engagement and the transition from SMETS1 to SMETS2 installations.

Most suppliers reported that they installed a number of SMETS1 meters after the SMETS1 end-dates and outside their allowed derogation volume. As we noted in our 2019 open letter, these meters cannot be counted towards annual milestones or targets. Nevertheless, we provided an opportunity for suppliers to report on the volume of SMETS1 meters installed, the reasons for which the supplier decided to proceed with the installation and why they felt it was in the best interests of the customer.

In looking at whether suppliers achieved their 2019 milestones, we only took account of SMETS2 installations and SMETS1 installations ahead of the SMETS1 end dates or within permitted derogations. For half of the larger suppliers⁶, the proportion of customers with compliant smart meters in their portfolio at the end of the year was within the allowed tolerance of the annual milestones for 2019. However, half of the larger suppliers failed to meet the annual milestones they had set for themselves and were outside of the 10% tolerance allowed⁷.

Since failure to meet their annual milestones is a breach of their licence conditions⁸, we carefully examined the reasons suppliers put forward for the breach and in deciding whether to pursue action, we had overall regard to our Enforcement Guidelines⁹ 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 the supplier's control.

In light of COVID-19, and to enable suppliers to focus on ensuring their customers' needs were met, we deferred engagement with those suppliers who missed their 2019 annual milestones and where we were not satisfied with the reasons given.

⁶ Suppliers with over 250,000 customers are subject to the larger supplier rollout reporting framework.

⁷ [Open letter December 2017](#)

⁸ Electricity Supply Licence SLC 44 and Gas Supply Licence SLC 38

⁹ [Enforcement Guidelines](#)

Rollout delivery: 2020 and beyond

At the start of 2020, rollout delivery for suppliers was progressing largely as expected. However, in late March and in light of the evolving COVID-19 situation and in line with public health guidance issued by Government, most suppliers paused all rollout activity with the exception of emergency and essential meter exchanges. Since mid-May 2020, and in light of revised Government guidance, suppliers are now in the process of recommencing installations. It is critical that suppliers do this in a safe way for both customers and installers and adhere to all relevant public health and Government guidance in all of the jurisdictions.

With suppliers having recommenced installations, we have set out some observations below on key areas highlighted to us through engagement with energy suppliers throughout 2019 as well as the rollout plan and progress report submissions we have received from suppliers. We expect suppliers to be taking account of these in delivering their obligations.

Customer Journey

We recognise that COVID-19 is likely to have meant that suppliers will need to adapt their customer journey to take account of public health and Government guidance. However, we note that with the significant experience suppliers have now gained in rolling out smart meters, they should be able to take into account these evolving circumstances and should continue to work to optimise delivery. We see a great deal of variation across suppliers in the effectiveness of their customer journey from contact strategy, to appointment booking through to ensuring the success of the appointment on the day which includes aborted installations management. Across the areas of customer eligibility, customer engagement and abort rates most suppliers still have significant scope for improvement.

Customer Eligibility and engagement:

It is of critical importance that suppliers continue to drive improvements in securing appointments and to focus on ensuring their customer journey is fit for purpose once the appointment has been booked.

There are still customers to whom suppliers are not yet able to offer a SMETS2 smart meter. This is in part due to individual suppliers' commercial decisions and, in part, due to the required technical solutions not yet being available. We anticipate that many of the technical constraints will be resolved during 2020. We expect suppliers to be engaging proactively with their supply chains to drive resolution of issues at pace and this should be a priority for all suppliers.

With eligibility opening up, in practice this means that suppliers will have new tranches of customers whom they have yet to contact. Suppliers have highlighted that the conversion

rate for newly eligible customers is much greater than for customers who have been contacted previously. In light of this, it is imperative that suppliers apply the learnings gained from previous customer engagement journeys to maximise customer conversions and reflect on whether there are any new innovative ways of engaging these customers. Suppliers should be actively considering how their customer engagement strategy might differ for these newly eligible customers and we expect to see suppliers adopting and implementing best practice approaches identified by BEIS and other partners such as Smart Energy GB.

We have observed that one way energy suppliers have been encouraging customers to accept the offer of a smart meter is through their product and service offers. We expect the range of innovative products and services linked to smart metering to grow over time, providing benefits to consumers, and note that energy suppliers are permitted to charge different prices for tariffs that require a smart meter¹⁰ and to apply entry criteria to a tariff. Such criteria may include the requirement to have a smart meter or indeed to register an interest in having one installed.

While consumers are not obliged to accept a smart meter, where a customer has not yet taken up the offer to have one installed, suppliers should consider appropriate re-contact strategies based on customers' preferences, contact history and reasons for not previously accepting a smart meter. Overly repetitive and coercive approaches, as opposed to innovative, holistic and tailored re-contact strategies, can be counterproductive in delivery of the rollout obligations.

Installations

With installations recommencing following the pause in delivery due to COVID-19, we expect to see suppliers actively considering how they can safely ramp installations back up learning from good practice developed through early test and learn activity which is being shared through industry forums. Suppliers are accountable under their licence for delivery, including the quality and safety of the installation process, whether that is carried out by in-house or third party installers. We note that we would not expect installer capacity to be a constraint on the rollout for any supplier.

In previous open letters we have highlighted the need for suppliers to reduce installation abort rates in order to maximise successful installations. This is an area in which we have seen a significant degree of variation in performance across suppliers and we did not see much of an improvement in 2019. The best performers are able to achieve a total abort rate of around 15% which covers aborted installations due to technical issues as well as customer-

¹⁰ Subject to the Default Tariff Cap for energy supplied via standard variable tariffs

led abortions. This is in contrast to the average abort rates of 26% across the large suppliers. We expect to see suppliers have a much greater focus on driving improvements in this area.

Abort rates is an area that suppliers should be able to impact by focusing on the end-to-end process and through optimising the customer journey and active appointment management both on the technical abortions side and particularly in regard to customer-led abortions. We expect suppliers to be working to minimise customer abortions 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. This should include optimising the time between the customer booking and the actual appointment as well as active cancellation management. We would expect suppliers to be learning from good practice approaches recently identified by BEIS in this area following engagement with industry¹¹.

Reminder of other regulatory obligations

SMETS1 Enrolment and Operational Licence Condition (OLC)

In 2019, SMETS1 meters started to be enrolled into the DCC and this will continue at scale in 2020 and 2021. Enrolment of SMETS1 meters is of critical importance as it is the route to ensuring that SMETS1 customers retain smart functionality when they switch supplier, enabling them to realise the enduring benefits of smart metering.

For SMETS1 meters that a supplier is operating in smart mode, once the enrolment service becomes available for each meter type, suppliers are required to take all reasonable steps to enrol those meters within 12 months¹² and to continue to operate them in smart mode¹³. We expect suppliers to be planning for the timely testing of systems and enrolment of SMETS1 meters, in line with these and the Smart Energy Code requirements.

For SMETS1 meters a supplier has gained on churn and that are dormant, the supplier should operate the meter in smart mode once the DCC has enrolled it, in line with the operational licence condition. We expect suppliers to be demonstrating compliance with this obligation now or, as a minimum, to have clear plans in place for achieving compliance in the near term. To support consumers in realising the benefits of enrolment, we expect that energy suppliers will provide timely information to their customers following the enrolment of their smart meters.

For SMETS2, all meters should be operated promptly in smart mode both upon installation and upon gaining a meter on churn. Suppliers should be putting the right processes in place

¹¹ See [subsidiary document](#) published alongside this open letter on the Ofgem website.

¹² Electricity Supply Licence SLC 54 and Gas Supply Licence SLC 48

¹³ Electricity Supply Licence SLC 49 and Gas Supply Licence SLC 43

to correctly identify where they have gained a SMETS2 meter through churn and to be working through any technical difficulties which will enable the supplier to operate the meter in smart mode.

New and Replacement Obligation (NRO)

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).

In 2019, industry has made progress in developing the required SMETS2 solutions but there remain instances where suppliers are not yet able to install a SMETS2 meter. These instances include: where a particular meter variant, which is under development, is needed; SMETS2 pre-payment in the CSP North region; properties where an Alt-HAN or dual-band communications hub solution is required; as well as post-emergency metering 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 SMETS¹⁴.

In the meantime, we acknowledge that there will be a few instances where suppliers or their representatives (including network companies in the case of an emergency metering situation)¹⁵ may not be able to install a SMETS2 meter. 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 meter install.

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 and are able to use and indeed benefit from their smart metering equipment. Compliance with the code is mandatory¹⁶. The requirements remain the responsibility of the supplier undertaking the installation, even when elements of the installation process are contracted out to other parties.

We recognise that suppliers are currently operating within the context of evolving social distancing guidelines, which means that they will need to adapt their approach to obligations that would usually involve face-to-face conversations with consumers, such as offering

¹⁴ There are exemptions for: current transformer meters, large gas meters, and non-micro non-domestic premises where an advanced meter may be installed.

¹⁵ [Open letter on emergency metering services January 2018](#)

¹⁶ Electricity Supply Licence SLC 41 and Gas Supply Licence SLC 35

energy efficiency advice. As we confirmed in our letter of 16 June 2020¹⁷, there is flexibility for suppliers to exercise judgement in meeting their SMICoP obligations. We expect suppliers to develop ambitious and innovative approaches, and to adopt a test and learn approach, reviewing and adapting activities as experience of installations during COVID-19 is gained, and as Government guidance on COVID-19 evolves. Working with suppliers, BEIS has developed a set of guiding principles¹⁸ and we expect suppliers to take these into account.

Supplier compliance with the requirements of SMICoP is monitored through an initial independent audit, annual self-certification, and a customer survey of the installation experience which includes the provision of energy efficiency advice. We have Directed¹⁹ that the results from the customer surveys should be published by the SMICoP Governance Board each quarter, which we expect will improve transparency and accountability, and ultimately an improved consumer experience. We had expected the first publication to be in April 2020, but this was delayed due to COVID-19 and the need for suppliers to be entirely focused on protecting customers. Therefore, the results of the customer surveys were published²⁰ at the end of June 2020 and includes the Q4 2019 and Q1 2020 results.

The published data shows that performance varies widely across suppliers and remains unacceptably low for some. We expect all suppliers to be working towards the performance of the best and have required poor performing suppliers to put improvement plans and targets in place. The challenge now for all suppliers is to adapt their approach to face-to-face interactions, as social distancing guidelines evolve, and we will continue to monitor progress.

Customer surveys for Q2 2020 were not carried out as suppliers had paused all but emergency installations for most of that period. Therefore, we expect the next publication to be of Q3 2020 data and this will be published in December 2020.

Smart prepayment

Smart meters can be switched between prepayment and credit mode remotely by suppliers. This avoids the disruption of a new meter installation for customers and reduces costs for suppliers, but is required to be appropriately managed to ensure that consumers are protected.

We would remind suppliers that they must give customers an active choice before remotely switching to prepay mode to collect debt and check that it is appropriate for customers to

¹⁷ [Updated Regulatory Flexibility Letter](#)

¹⁸ Energy suppliers should contact the BEIS Smart Metering Implementation Programme to request a copy of the guiding principles (smartmeterspmo@beis.gov.uk)

¹⁹ [Direction](#) to Modify the Smart Meter Installation Code of Practice

²⁰ [Published Survey Results](#)

pay by this method, including for vulnerability. Suppliers are required to check if it is safe and reasonably practicable²¹ to offer a prepayment tariff, potentially through a site visit, and must notify customers of any change in payment mode and how to top up. We are monitoring how suppliers are complying with these requirements.

Meter Asset Arrangements on Change of Supplier

As we have noted in previous open letters, suppliers are obliged²² when gaining a smart customer to take all reasonable steps to enter into an agreement with the Meter Asset Provider (MAP) for that meter. We continue to see evidence that suggests this process is not always working effectively between industry parties. Our expectation continues to be that industry parties work constructively together to ensure that the market operates in the best interests of consumers.

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

Head of Metering & Market Operations, Consumers & Markets

²¹ [Safe and Reasonably Practicable Guidance](#)

²² Electricity Supply Licence SLC 50 and Gas Supply Licence SLC 44