



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' Delivery of the Rollout and Regulatory Obligations**

### **Current smart meter rollout context**

Over the last year, the smart meter rollout has been affected by COVID-19 which has brought challenges to supplier delivery of the rollout through impacts on customers, staff and the supply chain. Nevertheless, since summer 2020, suppliers have largely continued to roll out smart meters to their customers while delivering in line with Government guidance<sup>1</sup>.

As delivery continues for the last three months of the current obligation, which will end on 30 June 2021, and with a new obligation commencing on 1 July 2021, we are publishing our annual letter on smart meter rollout delivery 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 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 obligations<sup>2</sup>.

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<sup>1</sup> [Working safely during coronavirus](#)

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

This letter sets out our observations on the rollout and wider regulatory obligations. 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>.

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**

In June 2020<sup>4</sup>, Government confirmed that a new regulatory framework for the smart meter rollout will commence once the deadline for the current obligation has passed. In mid-2021, we will see the transition from one obligation to the next and we note that this will have implications for suppliers in terms of reporting to Ofgem (as set out below).

#### Current obligation

On 30 June 2021, the deadline for the current 'all reasonable steps' obligation will pass. Under this obligation, suppliers are required to take all reasonable steps to roll out smart meters to their domestic and small non-domestic customers by the 30 June 2021 deadline (previously 31 December 2020)<sup>5</sup>. Once the deadline has passed, we will assess whether suppliers have taken 'all reasonable steps' across the whole rollout period and, to support us in making that assessment, we will require all suppliers in the market to report to us on their activity covering the full rollout period. We are currently developing reporting templates and plan to engage with industry on these and the timelines for reporting in due course.

#### Rollout from 1 July 2021 onwards

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 all suppliers in the market and will run until mid-2025<sup>6</sup>. Failure to achieve the annual installation targets will be a breach of a supplier's licence.

In light of the Government decision, we published our decision on the reporting requirements energy suppliers would be subject to under the new obligation in December 2020<sup>7</sup>. These reporting requirements will see all suppliers in the market report to Ofgem both at the

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<sup>3</sup> Ofgem open letters in [January 2016](#), [November 2016](#), [June 2017](#), [December 2017](#), [May 2018](#), [October 2018](#), [June 2019](#) and [June 2020](#).

<sup>4</sup> [Government decision on post-2020 regulatory framework](#).

<sup>5</sup> Electricity Supply Licence SLC 39 & Gas Supply Licence SLC 33.

<sup>6</sup> Electricity Supply Licence SLC 39A & Gas Supply Licence SLC 33A

<sup>7</sup> [Ofgem Reporting Requirements Decision](#).

beginning and end of each rollout year (31 July of each rollout year from 2021 to 2025) and publish their targets and their performance against these on their website<sup>8</sup>. All suppliers in the market will be required to achieve their annual installation targets and should, therefore, actively be preparing for delivery under the new obligation and the corresponding reporting to Ofgem that will be required.

We are currently developing reporting templates for the beginning of year reporting for the new obligation and will engage with suppliers on this matter in due course.

#### Non-DCC Users and the new obligation

In December 2017, Ofgem published an open letter<sup>9</sup> which among other things set out our expectations of suppliers who were in Controlled Market Entry (CME) or gas-only new entrants in relation to DCC User Mandate<sup>10</sup> compliance. In the open letter, we set out that we would be minded not to take enforcement action against non-compliant suppliers where:

- a supplier is in CME or a gas-only new entrant;
- that supplier is taking active steps to ensure their compliance with the DCC User mandate; and
- not being a DCC User does not confer a significant benefit in terms of any competitive advantage.

In order to ensure that the DCC User Mandate does not become a potential barrier to market entry, and that new entrants are able to enter the market safely, this remains our position. However, it is of critical importance that these suppliers take steps to ensure their compliance with the DCC User Mandate in a timely way. Furthermore, under the upcoming obligation commencing on 1 July 2021, all suppliers in the market will be subject to annual installation targets. This will also be the case for suppliers currently in CME/gas-only new entrants and we expect all suppliers to achieve their annual installation targets.

#### **Rollout delivery**

Over the course of the last year, supplier rollout delivery has been impacted by COVID-19 with delivery ceasing for all but emergency and essential meter exchanges in the spring of 2020. Suppliers largely re-commenced delivery in summer 2020 and, operating in line with Government guidance<sup>11</sup>, have continued to roll out smart meters. It is critical that suppliers continue to 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 across Great Britain.

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<sup>8</sup> Electricity Supply Licence SLC 44A & Gas Supply Licence SLC 38A

<sup>9</sup> [December 2017 open letter](#).

<sup>10</sup> Electricity Supply Licence SLC 48 & Gas Supply Licence SLC 42

<sup>11</sup> [Working safely during coronavirus](#)

While we recognise that suppliers are currently operating in a changeable environment, it is important that suppliers continue to optimise their delivery of the rollout to customers. In previous open letters<sup>12</sup> published by Ofgem, we have highlighted the importance of customer engagement, opening up eligibility and maximising installations. We have made a number of important observations in these areas previously which remain highly relevant as suppliers continue to deliver the rollout.

We note that for most suppliers there are still significant improvements that can be made in optimising the end-to-end installation and customer journey as well as maximising completion rates through among other things minimising abort rates. Some suppliers continue to have abort rates over 30% and we would expect to see suppliers working to minimise these as far as possible. In addition, suppliers should focus on putting the right processes in place that maximise the rebooking and subsequent successful installation where an appointment has either been cancelled or aborted. We have repeatedly highlighted the importance of suppliers focusing on driving improvements in these areas and as we look ahead to the upcoming obligation commencing on 1 July 2021, this should remain a key focus for suppliers as they work to achieve their annual installation targets. We would expect suppliers to be learning from good practice approaches recently identified by BEIS in this area following engagement with industry<sup>13</sup>.

#### Smart meter pre-payment delivery

During 2020, the COVID-19 pandemic has highlighted the consumer benefits for households with smart meters. Smart meter pre-payment customers can track and top-up credit without leaving home and automatic readings mean that meter readers do not need to visit for consumers to receive accurate bills. Suppliers can also offer timely support when they are alerted to smart pre-payment customers who have gone off-supply.

With recent improvements in technical eligibility, and recognising the significant benefits offered by smart meter pre-payment in relation to COVID-19, suppliers should be taking steps to ensure that their pre-payment customers are able to receive smart meters as soon as practicable. We will require larger suppliers to report on their credit/pre-payment split as part of annual reporting for the upcoming obligation commencing 1 July 2021, which will improve transparency around progress made.

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<sup>12</sup> Ofgem open letters in [January 2016](#), [November 2016](#), [June 2017](#), [December 2017](#), [May 2018](#), [October 2018](#), [June 2019](#) and [June 2020](#).

<sup>13</sup> See [subsidiary document](#) published alongside June 2020 Ofgem open letter.

For all prepayment customers, suppliers must ensure that it is safe and reasonably practicable<sup>14</sup> for customers to use and top-up their meter. We expect systems and processes to support a smooth smart top-up journey, including proactive monitoring of failures, and swift action to resolve any issues.

## **Reminder of other regulatory obligations**

### 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)<sup>15</sup>.

In 2020, industry made substantial progress in developing the required SMETS2 solutions and there remains a very limited number of instances where suppliers are not yet able to install a SMETS2 meter. These instances are broadly limited to: properties where an Alt-HAN solution is required, areas with no WAN coverage and post-emergency metering situations. We expect industry to drive the development of any remaining SMETS2 solutions (including Alt-HAN) 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<sup>16</sup>.

While industry has made significant progress in developing the required SMETS2 solutions in the last year, we note that our latest large supplier data from 2020 shows that, in some instances, suppliers continued to install traditional and SMETS1 meters. While it is not mandatory for customers to have a smart meter installed, we remind suppliers that they are obligated to take all reasonable steps to ensure that the meter they install is a SMETS2 meter. Where a supplier installs a traditional, SMETS1 or advanced meter, we expect 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 the installation. In the coming months, we will be engaging directly with suppliers in this area to ensure suppliers continue to bring down the volume of non-SMETS2 meters they are installing.

### Enrolment & Adoption

Since the end of July 2019, the DCC and suppliers have been enrolling SMETS1 meters into the DCC with over 3.8 million SMETS1 meters having been enrolled to date and we anticipate that this will continue at scale throughout 2021. The Enrolment and Adoption obligation

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<sup>14</sup> Safe and Reasonably Practicable Guidance

<sup>15</sup> Electricity Supply Licence SLC 39.7 & Gas Supply Licence SLC 33.7

<sup>16</sup> There are exemptions for: current transformer meters, large gas meters, and non-micro non-domestic premises where an advanced meter may be installed.

requires suppliers to take all reasonable steps to facilitate that their SMETS1 meters become eligible for enrolment. Once eligible, suppliers must take all reasonable steps to enrol their SMETS1 meters into the DCC within 12 months of the meter becoming eligible<sup>17</sup>.

To date, millions of SMETS1 meters have become eligible for enrolment and we expect suppliers to plan for the timely enrolment of the SMETS1 meters in their portfolio. This is the route to ensuring that SMETS1 customers who have lost smart functionality when they have switched have this restored and that those that switch supplier in future retain their smart functionality. This is vital as this will enable customers to realise the enduring benefits of smart metering. We further note, that as the process continues to gather pace, it is important that suppliers plan their enrolment profiles across the 12-month enrolment window and provide accurate migration forecasts to the DCC in order to ensure they are using the full period available to them and do not end up backloading enrolment and leaving it too late.

#### Operational Licence Condition (OLC)

With suppliers rolling out SMETS2 meters which connect directly to the DCC and with the enrolment and adoption programme progressing at scale, it is critical that suppliers operate smart meters in smart mode and we note that suppliers are obligated to take all reasonable steps to do so in line with the OLC<sup>18</sup>.

For SMETS1 meters that a supplier is operating in smart mode, once the meter has been enrolled, suppliers are required to take all reasonable steps to continue to operate them in smart mode<sup>19</sup>. We expect suppliers to ensure that they have the required systems in place that will see a customer retain smart meter functionality following enrolment into the DCC.

For enrolled SMETS1 meters a supplier has gained on churn and that are operating in smart mode, we expect suppliers to continue to operate those meters in smart mode. Suppliers should be putting the right processes in place to correctly identify where they have gained an active SMETS1 meter through churn and to be working through any technical difficulties which will enable the supplier to operate the meter in smart mode. 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 OLC. We have seen good progress being made by industry in this area and customers who have lost smart functionality are seeing this being restored through enrolment of their meters into the DCC. While this is very welcome, we are monitoring progress closely and we would note that scope remains for improvements in supplier performance across the board in this area. We expect suppliers to be demonstrating compliance with this obligation now. Over the coming months, we intend

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<sup>17</sup> Electricity Supply Licence SLC 54 and Gas Supply Licence SLC 48

<sup>18</sup> Electricity Supply Licence SLC 49 and Gas Supply Licence SLC 43

<sup>19</sup> Electricity Supply Licence SLC 49 and Gas Supply Licence SLC 43

to engage directly with suppliers on their performance. Furthermore, to support consumers in realising the benefits of enrolment, in particular where their meter was previously dormant, 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 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. Ensuring that customers retain their SMETS2 smart functionality upon churn should be a key focus for suppliers and we will engage directly with suppliers whose performance in this area needs to improve. Where a supplier has not commissioned the meter immediately upon installation, we expect suppliers to have processes in place to ensure that the meter is subsequently connected to the DCC and operated.

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

The Smart Metering Installation Code of Practice<sup>20</sup> (SMICoP) aims to ensure that consumers receive a high standard of service throughout the installation process and can use and benefit from their smart metering equipment.

Supplier compliance with the requirements of SMICoP is monitored through measures including a customer survey of the installation experience. Our review of customer survey results has shown that some suppliers have been able to adapt and maintain performance levels despite COVID-19 related challenges. A range in performance has however shown some suppliers continuing to perform at an unacceptable level when compared to the top performing suppliers. We have required underperforming suppliers to set out plans for improvement and expect them to comply with the targets they have set to ensure an improved installation experience for consumers.

#### Alt-HAN Participation by Suppliers

Alternative Home Area Network (Alt-HAN) solutions are needed to enable rollout to some 5% of premises where meters, communications hubs and IHDs are too far apart to connect using standard technology. Suppliers are obligated<sup>21</sup> to work in conjunction and cooperation with all other suppliers to ensure that the Alt-HAN Activities are carried out. They are also obligated to ensure that the Alt-HAN Services are made available to all suppliers and are provided on reasonable terms to any supplier which has elected to acquire them. We note that many – but not all - suppliers have contributed actively to the development of Alt-HAN

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<sup>20</sup> [SMICoP](#)

<sup>21</sup> Electricity Supply Licence SLC 55 and Gas Supply Licence SLC 49

Services. With the Alt-HAN programme in its final stages of testing and Services due to start later this year, it is imperative that all suppliers meet their obligations to contribute to the collective effort and ensure that they are fully prepared to actively roll out Alt-HAN Services for their customers and incorporate this into their rollout plans.

#### Meter Asset Arrangements on Change of Supplier

Suppliers are obligated<sup>22</sup> when gaining a smart customer to take all reasonable steps to enter into an agreement with the Meter Asset Provider (MAP) for that meter. This topic has been raised by us previously in open letters and we remain in contact with stakeholders from industry regarding the efficiency and operation of this process. We are disappointed that there continues to be difficulties and inefficiencies for both parties – MAPs and Suppliers – to reach fair and equitable agreements in all circumstances in the required timeframes.

Our expectation is that all industry parties should work constructively together to ensure that the market operates effectively. We expect to see a marked improvement in the overall performance of this area of the market going forward.

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**

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<sup>22</sup> Electricity Supply Licence SLC 50 and Gas Supply Licence SLC 44