



Making a positive difference
for energy consumers

Gas and Electricity suppliers

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Dear Colleagues

The smart meter rollout: Observations on suppliers' rollout preparations and small supplier rollout template guidance

This letter has two parts. The first half is aimed at all suppliers. It:

1. outlines our observations on suppliers' rollout preparations and common problems suppliers face when rolling out (with a particular focus on suppliers that are outsourcing their installations to one or more third parties)
2. clarifies, at a high level, what we expect from suppliers in demonstrating compliance with rollout obligations.

The second half is aimed at small suppliers. It:

1. explains next steps on rollout plans and reporting progress against these plans
2. gives guidance on completing the rollout plan template ahead of submission in spring 2016.

Background

Gas and electricity suppliers are required by their licence to roll out smart meters to all their domestic and small business customers by the end of 2020. Our role is to make sure consumers remain protected during the rollout and to monitor, and potentially investigate and enforce against suppliers' compliance with the associated obligations.

In October 2014 we published our decision document on supplier reporting to Ofgem during the smart meter rollout¹. We set out that we would use our information gathering powers to require small suppliers to submit rollout plans in January 2016. However we now anticipate sending the information request out in late January to be returned by 30 April 2016. Small suppliers also had an opportunity to submit dry-run plans to Ofgem in January 2015.

Through 2015 we reviewed dry-run plans from both small and large suppliers and spoke to large suppliers about their rollout plans. We are publishing this open letter about our general gathered learnings from this process and our previous learnings from the advanced

¹ https://www.ofgem.gov.uk/sites/default/files/docs/2014/10/final_proposals_on_supplier_reporting_0.pdf

meter rollout². This information may be useful for suppliers to consider when preparing and implementing their rollouts.

Part 1: observations on rollout preparations and demonstrating compliance

Part 1a: Observations on suppliers' rollout preparations and common problems suppliers face when rolling out

The following points are a non-exhaustive list based on some of the common problems suppliers have faced, are facing, or suspect they'll face, during the smart meter rollout. This is not intended as guidance of what constitutes 'all reasonable steps' to complete the rollout.

i. Approaching third party installers early

If suppliers are intending to outsource meter installations to third parties, they should engage with them as early as possible. There will be multiple suppliers outsourcing installations so it is important to understand what potential third parties can and can't deliver. Even if suppliers consider their required number of installs as small, third parties may be considering the needs of numerous other suppliers.

ii. Managing outsourced activities

If a supplier outsources activities to third parties, responsibility for compliance with supply licence conditions remains with the licensee. If outsourcing installations, we would expect suppliers to:

- carry out appropriate due diligence of any third parties selected to assure themselves the third party can deliver what is needed
- have appropriate contractual arrangements so third parties are incentivised to deliver both the quantity and quality of service needed for the supplier to comply with their obligations
- have reporting and quality assurance processes to monitor performance and to ensure the supplier is able to take remedial action where necessary.

iii. Building in time for testing, trialling and setbacks

Engagement with suppliers to date suggests that it is more difficult to get the rollout underway than they first assumed. Suppliers should have this in mind when planning their rollout. In particular, they should ensure they build in enough time to test and trial any metering assets they plan to use. Also, they should build in contingency to accommodate any setbacks encountered when starting the rollout or when introducing new assets.

iv. Thinking about install abort rates

Not every smart meter installation will go to plan. Suppliers will sometimes encounter issues that prevent them installing a smart meter at the first attempt. This may include not being able to access the premises in the first place and any issues suppliers might be faced with once inside the property.

Suppliers should consider making assumptions about the types and scales of these issues and factor this into their consumer engagement and resourcing plans. Planning to visit every property only once is not a realistic assumption. Suppliers should also monitor the types and scales of issues they face and have a process in place to improve their success rates.

² https://www.ofgem.gov.uk/sites/default/files/docs/2014/08/amr_open_ltr_final_1.pdf

v. Adapting to changes over the rollout

When suppliers are planning their rollout, they should be prepared for circumstances to change up until the end of 2020. This may include, but not be limited to, levels of customer engagement, available technology and changes in portfolio size.

Having robust monitoring processes for the rollout will help suppliers to identify and react to changes and potential issues early.

Part 1b: demonstrating progress against and compliance with rollout obligations

All suppliers will be required to demonstrate their compliance against the rollout obligation to take all reasonable steps to ensure their domestic and small business customers have smart meters by the end of 2020. This means that suppliers will need to have a record of the steps they take in order to provide evidence of compliance. Large suppliers will also have to demonstrate their compliance against their binding annual milestones and we will request that small suppliers demonstrate their progress against their non-binding annual targets.

Suppliers should implement systems and processes for tracking their compliance and progress such that they can provide evidence, upon request, of their compliance and progress. Some particular points suppliers should consider in terms of documenting evidence of compliance:

- i. SMETS 1 meters being installed today can be counted towards a supplier's compliance with annual milestones and the 2020 rollout obligation. However, DECC have set a date of 28 October 2017³, beyond which any SMETS 1 meters installed would not count but SMETS 2 meters would count. Suppliers should consider how they would demonstrate that a SMETS 1 meter was installed prior to the cut-off date.
- ii. Similarly, a supplier can count an Advanced Meter towards an annual milestone and the 2020 rollout obligation where that Advanced Meter was installed (or where a supplier had contracted for the installation) at a small non-domestic premises by 6 April 2016.⁴ Suppliers should consider how they would demonstrate that an Advanced Meter was either installed before the cut-off date or that the contract was in place before the cut-off date.

Part 2: next steps on rollout plan reporting, including guidance on completing the rollout plan templates

Part 2a: Guidance on completing small supplier rollout plan templates

Small supplier rollout plans will be in the form of a completed template. A copy of the template will be sent out to all small suppliers.

The template will ask for the percentage of their rollout they expect to have completed each year, accompanied by a description of their strategic approach and a narrative explaining key aspects of this approach. In line with our principles of better regulation, we want to ensure we are proportionate and do not impose unnecessary regulatory burdens. Therefore suppliers who supply less than 50,000 customers will not be required to complete the narrative section of their rollout plan. We may review this decision during the rollout, or

³ 12 months after DCC Live <https://www.gov.uk/government/consultations/smart-metering-rollout-strategy>

⁴ See standard licence conditions 33 (gas) and 39 (electricity) of the supply licences. DECC published a decision on 4 February 2016 to extend the exception deadline to 28 April 2017, for large suppliers, and 17 August 2017, for small suppliers: <https://www.gov.uk/government/consultations/consultation-on-non-domestic-smart-metering-draft-legal-text-extending-the-advanced-metering-exception-end-date>. The amended legal text will now be laid in Parliament for approval.

ask suppliers who grow above the 50,000 customer threshold in the future to resubmit a full small supplier rollout plan.

The following guidance aims to help small suppliers understand some of the things we are looking for in their plans.

i. Be clear on how your approach will change over the rollout

One of the purposes of these plans is for us to understand how suppliers intend to rollout smart meters all the way up to the end of 2020. We are particularly interested in:

- if you are intending to transition from SMETS1 to SMETS2 and how you are going to do this
- if you supply to both non-domestic and domestic properties that fall within the smart meter rollout obligations, any differences in approach between the two types of consumers
- any differences in approach between dual fuel, gas only and electricity only customers
- any differences in approach between credit and prepayment customers.

Plans should go into more detail on any periods of the rollout where you will face significant challenges (eg getting off the ground, rapid ramp ups, peak deployment, final year). This can help us understand how you are planning for some of the more challenging parts of your rollout.

ii. Provide clear dates and timescales for key milestones

Where possible, plans should provide clear dates and timelines for when key milestones are expected to be met and delivered. If some of the key milestones have already been met, please also make this clear.

We have found that providing overall timelines in the form of a diagram on a page can be an effective way to summarise key milestones over the rollout.

iii. Provide quantitative data and justify it

Where appropriate, you should back up the narrative with quantitative data. For example:

- numbers of installers needed for different stages of the rollout
- assumed install abort rates.

Where you provide quantitative data, please explain the rationale (including any evidence) to justify that data.

We realise there may be cases where dates, timescales or numbers aren't yet known. We are still interested what steps you are taking, and when, to get to a position where you do know these details.

Part 2b: Next steps for small suppliers – rollout plans and progress reports

This winter we are planning to formally request that all small suppliers provide us a rollout plan by 30 April 2016. We will provide the template for suppliers to complete. Requests will be sent to registered postal addresses and by email to relevant regulatory contacts (where known).

Our October 2014 decision document on supplier reporting explained that we would require yearly progress updates on the number of smart meters small suppliers have installed, but that the 2016 submission (which would be against progress until the end of 2015) would be voluntary. We will circulate a progress report template:

- i. to all small suppliers (for information); and
- ii. request that the suppliers that submitted a rollout plan in 2015 complete the progress report template on a voluntary basis.

Over the course of 2016 we may refine the progress report template. We will formally request that small suppliers complete the progress report for Q1 2017.

Yours faithfully,

Rob Salter-Church,

Partner, Consumers and Competition

Appendix 1:

This appendix sets out the rollout plan reporting process for small suppliers who become large suppliers during the rollout.

Process for new large suppliers

1. You will be counted as a large supplier if you have 250,000 or more gas, electricity or dual fuel customers on 1 April of the years 2016, 2017 or 2018.
2. You will be directed to submit a draft large supplier rollout plan in August of that year
3. We will then provide feedback on your draft plan
4. You will be required under the same direction to submit your formal rollout plan with binding annual milestones in January of the subsequent year
5. You will then be required to submit large supplier progress reports for the remaining years of the rollout up to 2019.