



Making a positive difference  
for energy consumers

Gas and Electricity Suppliers

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Dear colleagues,

### **Smart Meter Roll-out Planning**

Gas and electricity suppliers are required by their licence to take all reasonable steps to roll out smart meters to all of their domestic and small business customers by the end of 2020<sup>1</sup>. Our role is to make sure consumers remain protected during the roll-out, to monitor suppliers' compliance with the associated obligations and potentially enforce against any non-compliance<sup>2</sup>.

In spring this year we requested smart meter roll-out plans from all suppliers. For small suppliers<sup>3</sup>, this information request required annual targets, and from small suppliers who have more than 50,000 gas, electricity or dual fuel customers, we required a more detailed narrative response. In this open letter, we set out the key observations from suppliers' plans and potential risks that we have identified. These observations derive primarily from our analysis of small supplier plans, but they complement our previous open letter<sup>4</sup> and should be considered by all suppliers. The first part of this letter is aimed at all suppliers, whilst the second part is aimed at suppliers who supply non-domestic sites that are captured by the smart meter roll-out obligation<sup>5</sup>. Throughout, all references to time-specific obligations are correct at the time of publication but may be subject to change: suppliers should monitor BEIS and Ofgem publications to ensure that they have the most up to date information.

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<sup>1</sup> Standard licence condition 39.1 in the electricity supply licence and 33.1 in the gas supply licence

<sup>2</sup> In accordance with our permanent

[https://www.ofgem.gov.uk/sites/default/files/docs/2014/09/enforcement\\_guidelines\\_12\\_september\\_2014\\_public\\_version\\_1.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2014/09/enforcement_guidelines_12_september_2014_public_version_1.pdf) and annual (<https://www.ofgem.gov.uk/publications-and-updates/annual-enforcement-priorities-201617>) enforcement priorities.

<sup>3</sup> Small suppliers are suppliers who supply fewer than 250,000 electricity, gas or dual fuel customers

<sup>4</sup> [https://www.ofgem.gov.uk/system/files/docs/2016/02/final\\_open\\_letter\\_update.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/02/final_open_letter_update.pdf)

<sup>5</sup> Standard licence condition 39.1 in the electricity supply licence and 33.1 in the gas supply licence

In the event of any enforcement action for non-compliance with any Relevant Smart Metering System Condition, we are likely to consider how suppliers have taken account of the observations made in this, and any future, letter. These observations should not be thought of as exhaustive guidance on 'all reasonable steps', and if a factor is not discussed herein it should not be assumed that it would not be considered in any future enforcement action.

## **Observations on small supplier roll-out plans**

### **i. Building contingency time into the roll-out**

We are concerned that if suppliers leave a significant proportion of their roll-out to 2020, they risk not completing the roll-out in time. In the latter stages of the roll-out, installation and asset resources may be more constrained throughout the industry; suppliers should have this in mind when planning when to contract with third parties. Similarly, suppliers should be mindful of the risk of leaving difficult installs until the end of the roll-out period rather than addressing them throughout. This could result in a backlog of issues that cannot be resolved in the final stages of the obligation period. In all, we consider that it would be difficult for suppliers to demonstrate that they have taken 'all reasonable steps' if they plan to leave significant numbers of premises to the end of the roll-out.

### **ii. Monitoring and adapting strategies as the rollout progresses**

The experience of many suppliers suggests there is value in running trials, and building learnings from those trials into the wider roll-out strategy. It will be essential for suppliers to continually monitor the progress of their roll-out and the success, or otherwise, of their strategies. Suppliers should therefore start early and have review processes in place such that problematic or unsuccessful approaches are identified early in the process and adapted accordingly. Furthermore, the 'all reasonable steps' obligation is a dynamic one. Suppliers should continually review and update their processes as the roll-out progresses; this could mean, for example, responding to technological and procedural advances in the industry.

### **iii. Conducting due diligence to ensure that third parties can deliver contracted work and ensuring appropriate contractual arrangements**

For any activity that is outsourced to a third party, the supplier remains responsible for ensuring that licence conditions are complied with. Suppliers should assure themselves that third parties have the capacity to complete any work that they are contracted for. This could include sharing their growth

projections with their third parties to ensure that this is accounted for in the third party's planning processes. Similarly, if suppliers plan to contract exclusively with one third party provider for any activity, they should take steps to manage and mitigate the risk inherent in this. This might mean taking additional due diligence in tendering for and contracting with third parties, ensuring the contracts have appropriate incentive and penalty arrangements, and having contingency plans in place should the third party fail to deliver.

**iv. Allowing sufficient time to become a user of the Data and Communications Company (DCC)**

Becoming a user of the DCC requires a supplier to go through various processes and have in place appropriate systems. Whilst suppliers may outsource this activity to a third party, suppliers should be aware of what is required of them and be sure to allow sufficient time for this process. All suppliers must be party to the Smart Energy Code (SEC)<sup>6</sup>. Furthermore, suppliers have a deadline to become a DCC user<sup>7</sup>. Suppliers should also not overlook the challenge of updating their own internal IT systems, security arrangements and business processes that will allow them to interface with the DCC's systems. Being poorly prepared for these challenges would make it difficult for a supplier to be able to demonstrate that they have taken 'all reasonable steps'.

**v. Having a comprehensive and dynamic approach to customer engagement**

The smart meter rollout will necessitate suppliers engaging every domestic household in GB. To be successful, suppliers will need to engage with all of their customer groups, through different media, and be willing to implement new approaches when existing ones are not successful. We expect suppliers to consider their approach to customer refusals and how they will address these. Suppliers should think about how they will handle both implicit refusals (for example, customers who do not respond to contact attempts) and explicit refusals (for example, customers who actively do not want a meter exchange). Such customers should be re-entered into the engagement strategy, with that strategy evolving to reflect lessons learned on consumer engagement. Similarly, suppliers should learn from their early experiences at what rate installs are likely to be aborted and to account for this in their rollout planning. They should take learnings on board and evolve their strategy to reduce the abort rate.

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<sup>6</sup> Standard licence condition 48.1 in the electricity supply licence and standard licence condition 42.1 in the gas supply licence

<sup>7</sup> In the supply licence, this date is currently set to 16 February 2017 for large suppliers and 17 August 2017 for small suppliers, though we understand that BEIS are considering whether that date should move in light of recent announcements about the expected date of DCC live.

Suppliers should consider how they will engage all of their different consumers. It might be necessary, for example, to offer installation appointments that work around consumers' working lives. Similarly, business consumers might need appointments that don't require them to power down during business hours. These and similar strategies should be considered to maximise the roll-out's penetration. Suppliers should also ensure that they are compliant with customer engagement requirements set out in the Smart Meter Installation Code of Practice (SMICOP)<sup>8</sup> and the supply licences<sup>9</sup>.

**vi. Ensuring that installed meters are compliant with the rollout regulations**

Suppliers are responsible for ensuring meters they are counting towards their rollout obligations are compliant with the Smart Meter Equipment Technical Specifications (SMETS) in place at the time of the installation. Suppliers may want to consider whether manufacturers are able to evidence testing and conformance with the SMETS, including independent certification that meters meet the required security characteristics under CESG's Commercial Product Assurance (CPA) scheme. Suppliers should be aware of the risk of contracting for large volumes of meters before they have fully assured themselves that the meters are compliant. Similarly, suppliers might find it useful to be aware of the Smart Meter Device Assurance (SMDA) Scheme. This scheme is not mandatory, but it aims to provide assurance that any approved smart metering equipment can effectively interface with other equipment on the Home Area Network (HAN) and receive and interpret messages from the DCC.

**vii. Ensuring compliance with the SMICOP**

The SMICOP sets out a minimum standard of service that consumers should receive throughout the smart meter installation process. Dependent on the number of smart meters suppliers are installing there are up to three compliance measures designated in the SMICOP that suppliers are required to undertake. These include:

- **Self-certification:** a statement signed by a board member and submitted to Electralink ([SMICOP@electralink.co.uk](mailto:SMICOP@electralink.co.uk)) prior to starting the pre-installation of smart meters. The statement certifies compliance (at the time of signature) with all relevant clauses of the SMICOP, along with confirmation that there is supporting material evidence. Subsequent self-

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[http://www.smicop.co.uk/SMICoP%20Document/Smart\\_Metering\\_Installation\\_Code\\_of\\_Practice%20Version%203.1%20June%202016.pdf](http://www.smicop.co.uk/SMICoP%20Document/Smart_Metering_Installation_Code_of_Practice%20Version%203.1%20June%202016.pdf)

<sup>9</sup> Standard licence condition 45 of the electricity supply licence and standard licence condition 39 of the gas supply licence.

certifications are then required by the 1<sup>st</sup> of June each year in which the supplier is installing smart meters.

- **Customer surveys:** to be conducted if the supplier is installing more than 5,000 smart meters over a 12 month period. Pursuant to SMICOP clause 3.4.5.2, the thresholds for conducting customer surveys are detailed in [additional guidance documents](#) available on the SMICOP website<sup>10</sup>.
- **Independent audit:** commissioned on suppliers with over 10,000 electricity and/or gas domestic and/or micro business customers where the supplier is installing smart meters. Details of the audit thresholds, timeline and process can be found in clause 3.3 of the SMICOP.

### **Additional observations on non-domestic supplier rollout plans**

#### **i. Being aware of the end date of the advanced meter exception**

Advanced meters installed in non-domestic premises are eligible to count towards a supplier's rollout obligations under the advanced meter exception<sup>11</sup>. However, suppliers must be aware that only meters installed before the exception end date are eligible to be counted as part of the rollout milestones. The end date is currently 17 August 2017 for small suppliers and 28 April 2017 for large suppliers<sup>12</sup>. An advanced meter may only be installed after these dates if a contract to install or arrange to install an advanced meter was entered into before 6 April 2016. Suppliers may also wish to consider how they will demonstrate that advanced meters were installed prior to the exception date.

#### **ii. Being sure that you are prepared for SMETS2**

Non-domestic suppliers may be focusing their efforts on installing advanced meters prior to the exception end date. Nonetheless, suppliers should not overlook the importance of preparing for installing or churning in SMETS2 meters. Suppliers will still have to operate churned-in SMETS2 meters and to install SMETS2 meters in any premises (that don't have a smart or advanced meter installed) that they gain through churn after the exception end date. They may therefore wish to start considering their strategies for SMETS2 procurement, installation and gaining DCC user status well in advance of the advanced meter exception end date.

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<sup>10</sup> A change request to the SMICoP was approved by Ofgem in October 2016 to enshrine the Monitoring and Compliance Customer Survey Specification into the SMICoP obligations by creating "Section C" within the SMICoP: <https://www.ofgem.gov.uk/publications-and-updates/smart-meter-installation-code-practice-change-request-036-cr036-enshrine-monitoring-compliance-customer-survey-v0-6-section-c-smicop>

<sup>11</sup> In accordance with conditions 39.4 and 39.5 of the electricity supply licence and conditions 33.4 and 33.5 of the gas supply licence.

<sup>12</sup> Though we are aware that BEIS wrote to suppliers on 14 September 2016 to express a minded-to position to move these dates to 30 September 2017 for small suppliers and 12 June 2017 for large suppliers.

**Next steps**

In early 2017, suppliers will report on the progress of their smart meter rollouts. For small suppliers, whilst the milestones that have been submitted this year are not binding<sup>13</sup>, we may consider requiring small suppliers to submit binding milestones at a later date if we are concerned with progress.

If you would like to discuss the points covered in this letter, please contact Colin Down ([colin.down@ofgem.gov.uk](mailto:colin.down@ofgem.gov.uk)).

Yours faithfully,

**Rob Salter-Church**  
**Partner, Consumers and Competition**

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<sup>13</sup> Yearly milestones are not binding, but by 2020 all suppliers must have taken all reasonable steps to install a relevant meter at each domestic and designated premises. This requirement is binding and enforceable.