



Making a positive difference
for energy consumers

Gas and Electricity Suppliers

Email: smartmetering@ofgem.gov.uk

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SMART METER ROLLOUT: ENERGY SUPPLIERS' PROGRESS AND FUTURE PLANS

Gas and electricity 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. Ofgem's role is to oversee this rollout, ensuring that the interests of consumers are protected; and to monitor and investigate where we believe a supplier may be in breach of the relevant licence obligations¹. Suppliers must submit rollout plans and progress reports to us in accordance with certain licence obligations². This letter sets out our observations on the submissions we received on large and small suppliers' rollout activity in 2016 and their plans for the future. These observations may be of interest to suppliers generally.

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 previously published³. However, suppliers should note that the onus remains on them to take all reasonable steps to complete the smart meter rollout. When considering any enforcement action for non-compliance, we are likely to consider how suppliers have taken into account or acted upon the observations we have published. The observations made here (or 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 2016

Some 1.3 million gas and 1.7 million electricity smart meters were installed during 2016⁴. The majority of these meters were installed by large suppliers.

For most large suppliers, the number of meters they installed was in line with the annual milestones they had set themselves for 2016. However, suppliers also reported that a significant proportion of the installed meters need a firmware upgrade to become compliant with the first version of the Smart Metering Equipment Technical Specifications (SMETS1)⁵. It is expected that these upgrades will be delivered remotely ('over the air') and will not

¹ Any enforcement action is taken in the light of the relevant circumstances of each case and in accordance with our [Enforcement Guidelines](#).

² Standard Licence Condition 38 for Gas and 44 for Electricity under which, amongst other things, large suppliers set annual milestones that they must achieve and smaller suppliers set non-binding targets.

³ Ofgem open letters, [January 2016](#) and [November 2016](#).

⁴ BEIS Statistics [Q4 2016](#).

⁵ The Smart Energy Code and associated documents set out the relevant smart metering equipment technical specifications.

involve a site visit. Until these meters have received the update, they will not count towards suppliers' 2020 obligations as they do not meet the licence condition definition of a smart metering system⁶. In addition, suppliers must ensure that meters are made SMETS1-compliant prior to the SMETS1 end-date⁷.

Based on the information provided by suppliers, we consider that almost all appear to have credible plans for completing these upgrades over the next year for meters they have installed. Whilst we are disappointed that these meters were not upgraded during 2016, we are reassured that these meters should be remotely upgraded over the coming year. We will be monitoring suppliers' progress closely and will consider whether enforcement action is appropriate against any supplier who fails to deliver on their assurances.

Even though a proportion of the meters installed in 2016 are awaiting a firmware upgrade, they have been successfully installed and they are already delivering benefits to customers⁸, including providing more accurate information about energy consumption, and bringing an end to estimated billing.

We also note that suppliers are responsible for ensuring any non-compliant SMETS meters they inherit on churn are upgraded prior to the SMETS1 end-date if they are to count towards 2020 obligations. This may require the gaining supplier liaising with the original installing supplier, Meter Asset Provider and/or manufacturer as appropriate.

Looking ahead to 2017

Suppliers' plans for 2017 indicate a significant ramping-up of installations. Suppliers will be continuing to install first generation (SMETS1 meters) and advanced meters at non-domestic premises throughout the year, cutting over gradually to installations of second generation meters (SMETS2) that will be supported by the DCC⁹.

DCC and SMETS2 preparations

Suppliers' preparations for using the DCC and moving to SMETS2 installations must be appropriately prioritised during 2017. We therefore expect suppliers to: be actively engaged in end-to-end testing at the earliest opportunity; be actively managing issues arising from end-to-end testing with the DCC and their SMETS 2 asset and IT system providers to enable initial SMETS 2 installations to commence at the earliest opportunity; and have robust and deliverable plans in place to complete their SMETS 1 to SMETS 2 transition by the SMETS 1 end date. These plans should also enable suppliers to ramp-up activity in light of wider industry developments.

We are concerned that some suppliers have apparently unambitious approaches to these preparations and for the subsequent installation of SMETS2 meters. This could hamper progress later in the rollout and suppliers must carefully consider their strategies for the critical transition from SMETS1/ advanced meters to SMETS2 or otherwise risk non-compliance with their regulatory obligations.

Meter installers

Some suppliers reported that their installation partners had not performed as well as expected during 2016. Third parties play a crucial role for suppliers in many areas of the

⁶ Supply Licence Conditions require that a 'Smart Metering System' has, inter alia, the functional capability specified by and complies with the other requirements of a version of the Smart Metering Equipment Technical Specifications that was valid on the date of installation.

⁷ This date will be confirmed by BEIS in due course.

⁸ Although it should be noted that, regardless of whether a meter is compliant or capable, it may not always work in smart mode when a customer changes supplier, however most meters installed are currently operating in smart mode.

⁹ The Data and Communications Company (DCC) provides the centralised smart metering communications infrastructure across Great Britain to send and receive information from smart meters.

rollout. Suppliers are ultimately accountable under their licence for delivering the rollout and must therefore carry out appropriate due diligence and ensure they put in place contracts and processes to monitor progress of their appointed third party installers, identify issues and allow them to take swift remedial action if necessary.

There were also reports from some suppliers that they – or their installation partners – had faced challenges in recruiting enough meter installers during 2016. It is clear – and has been for some time – that there will be competition for qualified installers. Suppliers need to consider a variety of sources and approaches for recruiting and training sufficient skilled people to fulfil their planned installation activity.

Annual installation rates

The level of ambition for 2017 varies widely across suppliers and apparently modest annual milestones or targets for 2017 have led to some suppliers planning for very high peak installation years later on in their rollouts. Such an approach may carry a high degree of risk, for example: securing and completing sufficient installation appointments; managing very high volumes of activity through business processes and systems; and the practical and logistical issues of having enough people and equipment in the right places at the right time including installers, call centre operators, managers and mentors.

Suppliers must ensure that risks are identified and managed appropriately to ensure that the customer experience does not suffer in these peak installation years and that installations are completed safely and in line with standards set in the Smart Metering Installation Code of Practice. Careful consideration needs to be given to whether plans include sufficient time to learn from experience and adapt accordingly.

Consumer engagement

For the rollout to be successful, suppliers will need to engage with all of their customers to secure appointments for smart meter installations, deliver meaningful energy efficiency advice, and a clear demonstration of the equipment, particularly the In Home Display. These steps are crucial in enabling customers to reap the benefits of smart metering.

There is unlikely to be a 'one size fits all' solution and suppliers will have to keep their approaches to consumer engagement under review and make changes in light of experience. We would expect suppliers to be using multiple channels of engagement and to be prepared to adapt to changing circumstances as they arise. This is a critical area and continued focus from suppliers will be required to maximise the chances of success.

Some suppliers have tested the use of 'deemed appointments', where the customer is informed that the supplier intends to install a smart meter. The customer can rearrange or cancel the appointment, but if there is no response the supplier visits the premises at the stated time to offer an installation. Whilst this approach is unlikely to be appropriate for all customer groups, for example some vulnerable customers, it is an option that suppliers may want to consider as part of a wider suite of consumer engagement tools. If suppliers choose to use this approach, they will need to ensure it provides a good consumer experience and that it is compliant with their regulatory and other legal obligations, including the Smart Meter Installation Code of Practice. We expect suppliers to monitor the experience their customers receive during the installation journey. If suppliers use deemed appointments and find that it is not offering a good customer experience, we would expect them to respond accordingly.

Suppliers should also be ensuring that the broader engagement activity of Smart Energy GB complements their own activity, both in generating positive customer interest in smart metering and in delivering the benefits of smart metering to all consumers, including reduced energy consumption. Suppliers need to be ensuring that the investments they are making in Smart Energy GB are achieving good value for money and delivering against all relevant licence conditions.

Small suppliers

The issues highlighted above are also relevant to small suppliers and should be considered as they plan and deliver their smart meter rollouts. Small suppliers should draw on any experience during 2016 – especially where targets were missed – using it to inform plans. Some small suppliers' plans indicate their intention to start rolling out smart meters relatively late in the rollout period. Suppliers in this position need to consider carefully whether there is sufficient opportunity to learn from experience and adapt approaches accordingly.

Regulatory obligations

Continuation of Arrangements on Change of Supplier

When gaining a customer with a smart meter suppliers have obligations under their licence conditions¹⁰ to take all reasonable steps to enter into an agreement with the meter asset provider (MAP) for that meter; or if an agreement cannot be made to return the meter to the MAP. Additionally a large supplier should not replace a smart meter with a traditional meter. We have some evidence that suggests suppliers may not be fully complying with these obligations and we encourage suppliers to consider these obligations and assure themselves that they are compliant. We will continue to monitor this area and may take action if necessary in accordance with our Enforcement Guidelines.

Rollout obligations

Suppliers need to consider carefully their approaches to complying with their licence obligations in relation to the rollout, including:

- requirements on large suppliers to become a DCC user by 25 May 2017 and for all suppliers by 25 November 2017;
- the SMETS1 end date (which will be confirmed by BEIS in due course) after which new installations of SMETS1 meters (and any SMETS1 meters that were installed prior to the end-date but were not made compliant by the end-date) will no longer 'count' towards suppliers' smart meter rollout obligations;
- the large supplier advanced metering exception end date of 12 November 2017 (or as otherwise directed by BEIS);
- the small supplier advanced metering exception end date of 12 March 2018 (or as otherwise directed by BEIS);
- for larger suppliers meeting the binding milestones they set themselves for 2017, 2018 and 2019; and
- all suppliers must ensure they are taking all reasonable steps to complete the rollout by the end of 2020.

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 as well as suppliers' compliance with their obligations. As the rollout progresses we will continue to monitor the progress of all suppliers with respect to their respective licence obligations.

Jacqui Russell
Head of Smarter Metering

¹⁰ Standard Licence Condition 44 for Gas and 50 for Electricity.