



Making a positive difference  
for energy consumers

Gas and Electricity Suppliers

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Date: 1 December 2017

Dear Stakeholder,

## **SMART METER ROLLOUT: DCC USER MANDATE, FUTURE ROLLOUT PLANS AND CONSUMER EXPERIENCE**

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. In addition to this, suppliers are subject to a number of other obligations, including the requirement to become a DCC User<sup>1</sup> and the requirements under the Smart Meter Installation Code of Practice. 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 obligations.

In recent months we have engaged with different groups of suppliers on issues relating to:

- Compliance with the DCC User Mandate
- Tolerance for 2018 and 2019 smart meter rollout milestones
- Future submissions of revised rollout plans
- Consumer engagement during the smart meter rollout
- Energy efficiency advice during the smart meter rollout

This letter sets out our position on these issues to ensure that all parties remain informed on policy positions affecting the rollout.

### **DCC User mandate**

The deadline for all suppliers to become a DCC User was 25th November 2017<sup>2</sup>. This is an obligation under standard licence conditions ("SLC") 48 and 42 of the electricity and gas supply licences respectively.

We have been liaising directly with SECAS<sup>3</sup> to understand supplier compliance with this requirement, and are concerned to learn that some suppliers failed to achieve DCC User

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<sup>1</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/450167/Smart\\_Meters\\_Rollout\\_Strategy\\_Government\\_response\\_FINAL.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/450167/Smart_Meters_Rollout_Strategy_Government_response_FINAL.pdf)

<sup>2</sup> See direction issued on 25 November 2016: [Smart metering implementation programme \(SMIP\) Direction to designate for DCC live in the north region and for certain user roles the date from which the relevant smart energy code \(SEC\) provisions have legal effect](#)

<sup>3</sup> The Smart Energy Code Administrator and Secretariat.

status by the deadline. A failure to become a DCC User by the deadline in the licence is a breach of that condition.

Where we are satisfied that a regulated company is contravening, or is likely to contravene, any relevant licence condition or requirement then we may take enforcement action through the imposition of a final or provisional orders for securing compliance. However, we recognise that it may not always be appropriate to take enforcement action, in particular where there are compelling reasons for non-compliance, where compliance can be achieved through other means, and/or where a party is already taking proactive steps to ensure their future compliance with a requirement.

We will be continuing to monitor supplier progress to achieving compliance with the DCC User obligation. The following clarifies our approach in terms of next steps for suppliers in varying stages of market entry.

#### *Suppliers that have completed Controlled Market Entry (CME) & established gas-only suppliers*

All domestic suppliers are subject to the requirement to become a DCC User by 25 November 2017.

With the exception of electricity suppliers currently in CME, and gas-only new entrants below a certain size, we would like to understand more about the reasons for non-compliance of any active supplier who failed to meet the DCC User mandate, and the steps that will be taken to ensure future compliance. We have written to these suppliers separately to invite them to provide a plan to become a DCC User.

Following receipt of a supplier's plan and other requested information, we will assess whether the submitted plan and reasons for failing to become a DCC User are appropriate. There are a number of points we will take into account, which will include, but will not be limited to: the explanation of the reasons for the delay; the remedial actions taken to address the situation; the timeliness of any action taken to identify and remedy the situation; any financial gain made from the contravention; and the impact, or potential impact, on consumers.

If we are not satisfied with the information provided by these suppliers, in particular with regard to the plan they have provided, we may consider taking further action in accordance with our [Enforcement Guidelines](#).

#### *Suppliers in Controlled Market Entry (CME) and gas-only new entrants*

All suppliers with at least one customer are required to become a DCC User, including suppliers in CME (the industry process that all new entrants must complete before they can legally enter the retail electricity supply market). However, we recognise that the requirement to be a DCC User can be burdensome for new suppliers, and may act as a potential barrier to entry due to the process and costs of developing a DCC adaptor and undertaking the necessary audit.

As suppliers in CME and gas-only new entrants<sup>4</sup> serve a very small number of meter points, we believe there is a low risk of consumer detriment if these suppliers are not DCC Users by the deadline in the licence. Therefore, where a supplier has failed to become a DCC User

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<sup>4</sup> For this purpose of this letter, a gas-only new entrant is a supplier that entered the domestic gas supply market on or after 1 December 2016, and has a current portfolio of less than 250 gas meter points, 0 electricity meter points. This is similar to the number of meter points that a supplier in CME may have.

before the date in the licence, and the following criteria are met, Ofgem will be minded not to take enforcement action 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 confer a significant benefit in terms of any competitive advantage.

However, we expect CME suppliers and gas-only new entrants who are unable to comply with the DCC User mandate to have a plan in place to ensure that they will become compliant within a reasonable period, and certainly before leaving CME, or in the case of gas-only new entrants, growing beyond 250 gas meter points. We do not require CME and gas-only new entrants to submit their plan to us; however, this plan will be important in demonstrating that a relevant supplier was taking steps towards compliance, should we later consider it appropriate to investigate this further in the future.

We consider that the approach set out in this letter is consistent with our better regulatory duties, in particular the need to have regard to the principles under which regulatory activities should be proportionate and targeted at cases in which action is needed.

### **Tolerance for 2018 and 2019 milestones**

In September 2017 we consulted affected suppliers on increasing the tolerance applied when assessing large suppliers' performance against their 2018 and 2019 annual milestones.<sup>5</sup> Following this consultation, we decided to increase the tolerance large suppliers are allowed when achieving their Annual Milestones to 10 percent in 2018 and 2019, consistent with the tolerance allowed in 2016 and 2017. This means that we would consider a supplier to have met its binding Annual Milestone in those years if it achieves 90 percent of the Annual Milestone set.

### **Future submissions of revised rollout plans**

The regulatory framework,<sup>6</sup> allows large suppliers to submit a revised rollout plan with revised Annual Milestones in January 2018 however, beyond this, a supplier may only resubmit a revised rollout plan with our prior agreement. We recently issued large suppliers a letter signalling our intention to agree to any request a supplier makes with regards to submitting a revised rollout plan on 31 January 2019.<sup>7</sup> We once again encourage suppliers who think that they may want to submit a revised rollout plan in January 2019 to seek agreement from us early, and we will endeavour to respond promptly. For example, suppliers may want to seek agreement now. If a supplier subsequently decides it does not wish to submit a revised plan in January 2019, the previously accepted plan, and the milestones contained within it, will stand.

We consider that the changes to the tolerances, and suppliers' ability to resubmit their rollout plan in both January 2018 and 2019, provide sufficient flexibility to allow suppliers to continue to be ambitious in the Annual Milestones and 2020 targets they set. Plans should be based on sound evidence and reasonable assumptions, driving towards ambitious levels of rollout by 2020, given the obligation to take all reasonable steps to complete the rollout by that date.

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<sup>5</sup> Issued via email to large suppliers on 22 September 2017.

<sup>6</sup> See: [https://www.ofgem.gov.uk/system/files/docs/2017/06/2017.06\\_decision\\_letter\\_-\\_regulatory\\_framework\\_-\\_final.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/06/2017.06_decision_letter_-_regulatory_framework_-_final.pdf)

<sup>7</sup> Pursuant to standard condition 44.6(b) of the electricity supply licence, and standard condition 48.5 (b) of the gas supply licence which enables the licensee to submit a revised Roll-out Plan to the Authority where, in response to a request from the licensee, the Authority has agreed that it may submit a revised Roll-out Plan.

We remind suppliers that any revised rollout plans must contain a detailed explanation of the licensee's reasons for the Annual Milestones it has set, which must demonstrate how the licensee expects to meet the requirements in condition 39.1 of the Electricity Supply Licence and/or condition 33.1 of the Gas Supply Licence.<sup>8</sup>

## **Consumer engagement**

During our recent bilateral engagement with large suppliers, several suppliers cited consumer engagement as a key challenge faced in 2017 with regard to the rollout of smart meters. As previously noted, there is unlikely to be a 'one size fits all' solution. Suppliers must keep their approaches to consumer engagement under review and make changes in light of experience they gain.

We expect suppliers to use multiple channels of engagement and to adapt to changing circumstances as they arise. We also expect suppliers to consider how to maximise engagement through, for example, customer segmentation, tailored messaging according to consumer preferences and attitudes, and offers of positive incentives such as smart metering products, services and tariffs. We consider consumer engagement to be a critical area, and continued focus from suppliers will be required to maximise the chances of success.

Further, we are concerned about suppliers' efficiency in converting customers who themselves identify as being interested in smart meters into booked appointments for an installation. We expect suppliers to continually review and actively seek to remove barriers to converting customer interest in smart metering into successful installs to improve their conversion rates.

Suppliers should also be ensuring their own activity and that of Smart Energy GB is complementary, both in generating positive customer interest in smart metering and in delivering the benefits of smart metering to all consumers.

## **Energy efficiency advice**

Suppliers are required by the Smart Meter Installation Code of Practice (SMICoP) to provide energy efficiency advice. This is a crucial part of the customer journey and will help maximise the benefits of the rollout for consumers and their ongoing engagement with the retail energy market. We are concerned with performance in this area.

We will continue to monitor supplier performance and encourage suppliers to take steps to improve their performance on energy efficiency advice. For example, suppliers should consider:

- how best to engage with customers on energy efficiency throughout the process and ensure, for domestic customers, that energy efficiency is delivered during the installation visit;
- how to tailor advice to make it relevant to the customer;<sup>9</sup>
- how to apply best practice for the delivery of energy efficiency advice, for example as set out in the BEIS energy efficiency toolkit for domestic premises;<sup>10</sup> and
- how to ensure that installers and other staff (including third party contractors) understand that they are required to deliver good quality tailored advice to customers, and have the right skills and knowledge to do so.

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<sup>8</sup> <https://www.ofgem.gov.uk/ofgem-publications/118052>

<sup>9</sup> A SMICoP change request has recently been approved to require suppliers to tailor energy efficiency advice.

<sup>10</sup> <https://www.gov.uk/government/publications/best-practice-guidance-for-the-delivery-of-energy-efficiency-advice-to-households-during-smart-meter-installation-visits>

We expect suppliers to have internal processes in place to be able to check, monitor and improve energy efficiency advice delivery by installers and other staff, including third party workforces, in addition to the reporting in place under SMICoP.

Yours faithfully,

**Jacqui Russell**  
**Head of Smart Metering**