



Making a positive difference  
for energy consumers

Gas and Electricity Suppliers

Direct Dial: 0141 341 3999  
Email: Leigh.Rafferty@ofgem.gov.uk

Date: 15 May 2018

Dear Stakeholders

## **SMART METER ROLLOUT: ENERGY SUPPLIERS' PROGRESS AND FUTURE PLANS**

Energy 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. 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 move to a low carbon economy. Ofgem's role is to provide regulatory oversight of this rollout, ensuring consumers' interests are protected, and to monitor and investigate where we believe a supplier may be in breach of the relevant licence obligations.<sup>1</sup>

This letter sets out our observations on the submissions we received in January and February 2018 from larger suppliers on their rollout activity in 2017 and their plans for the future.<sup>2</sup> 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> The onus remains on suppliers to take all reasonable steps to meet the 2020 rollout obligation.

When considering any enforcement action for non-compliance, we are likely to consider how suppliers have taken account of 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 2017**

For most large suppliers, the number of smart meters in their customer portfolio at the end of the year was in line with the annual milestones they had set themselves for 2017. Relevant meters include smart meters installed by the supplier and those gained through churn from another supplier.

Currently, the majority of installed meters are first generation smart meters, compliant with the first version of the Smart Metering Equipment Technical Specifications (SMETS1).<sup>4</sup>

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<sup>1</sup> Any enforcement action is taken with regards to the relevant circumstances of each case, and in accordance with our [Enforcement Guidelines](#).

<sup>2</sup> Suppliers with over 250,000 customers are subject to the larger supplier rollout reporting framework.

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

<sup>4</sup> The Smart Energy Code and associated documents set out the relevant smart metering equipment technical specifications.

We encourage suppliers to make plans for the enrolment of these meters into the Data Communication Company (DCC) when that service becomes available.<sup>5</sup>

A proportion of installed meters need an 'over the air' firmware upgrade to become compliant with SMETS1. Suppliers are making reasonable progress but must complete these upgrades ahead of the SMETS1 end date<sup>6</sup> in order for these meters to count towards their rollout obligations. This includes upgrading those meters inherited through churn from another supplier.

Suppliers are responsible for ensuring that all smart meters in their portfolio are SMETS compliant, and should make sure they have processes in place to satisfy themselves before including meters in their reporting. 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.

A key challenge cited by suppliers for 2017 was securing installation appointments with customers. It is positive to see suppliers have been testing and trialling new customer engagement approaches, expanding their use of channels and gathering insight to address concerns. However, we consider that more can be done, as is discussed further below.

All large suppliers and most small suppliers are now DCC users. Some small suppliers are yet to comply with this obligation, which is a breach of their licence. We are addressing this issue directly with those suppliers, consistent with our Enforcement Guidelines.

## Looking ahead to 2018

Suppliers' plans for 2018 indicate a modest increase in installations compared to previous years, followed by more significant ramp-ups in 2019 and 2020. In the first half of 2018 suppliers plan to continue to install SMETS1 meters and advanced meters at non-domestic premises, while carrying out testing and piloting SMETS2 meters. In the second half of the year, suppliers plan to gradually transition to SMETS2 installations, ahead of the SMETS1 and the advanced meter exception end dates.

### SMETS2 preparedness

We expect suppliers to be ready to install SMETS2 meters at scale by the SMETS1 end date, aiming to minimise any detrimental impacts on the rate of rollout during the cutover. SMETS1 meters installed after the SMETS1 end date will not count towards rollout obligations.<sup>7</sup>

Suppliers' preparations for using the DCC and moving to SMETS2 installations must be appropriately prioritised during 2018. We therefore expect suppliers to:

- be actively engaged in end-to-end testing, both for credit and prepayment functionality;
- have contracts in place to secure sufficient volumes of SMETS2 meters and In Home Displays (IHD) from their manufacturers;
- have plans in place for training installers and other staff;
- have plans for controlled pilots with customers in small volumes;

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<sup>5</sup> Government's long standing policy is for SMETS1 meters to be operated on the DCC and therefore be fully interoperable when a consumer switches supplier. BEIS published two consultations in April 2018 to help deliver this objective. See [consultation on enrolment of SMETS1 meter cohorts with the Data Communications Company](#) and [consultation on maximising interoperability for first generation \(SMETS1\) smart meters](#).

<sup>6</sup> The SMETS1 end date is set by BEIS and is currently 5<sup>th</sup> October 2018.

<sup>7</sup> To support an efficient transition from SMETS1 to SMETS2 meters, BEIS has granted derogations to some suppliers allowing them to roll out a limited number of SMETS1 meters after the SMETS1 end date with a backstop date of 13 January 2019.

- be actively managing issues arising from end-to-end testing and piloting; and
- have robust and deliverable plans in place to complete their SMETS1 to SMETS2 transition by the SMETS1 end date.

### Customer eligibility

Suppliers are not yet able to offer smart metering to all customers. We expect to see all suppliers actively seeking to open up eligibility to remove constraints on their ability to deliver the rollout.

Eligibility for some customers is restricted by technical constraints that are common to all suppliers. For example, meter variants are not yet available for some restricted meter types, and HAN coverage is not available in all premises. We expect suppliers to be engaging with supply chains and, where appropriate, with industry groups to drive early resolution to these issues. We expect suppliers and network companies to work together to identify and develop solutions for customers whose metering currently uses the Radio Tele-Switching system, ahead of the service ending post-2020.

Further to this, some suppliers have made commercial decisions that make specific customers ineligible at present. For example, some suppliers are not rolling out SMETS1 prepayment meters. We encourage these suppliers to open up eligibility for these customers as soon as possible.

### Consumer engagement

Consumer engagement is crucial to the success of the rollout, and suppliers' ability to effectively engage consumers will become ever more important as the rollout progresses and they are reaching out to more difficult to reach consumers. Effective engagement is a critical element of suppliers' obligations to take all reasonable steps to install smart meters by 2020 and we expect to see a continued strong focus on this area. This is equally important for both domestic and non-domestic consumers.

As noted in previous open letters, there is no 'one size fits all' approach to consumer engagement. We expect suppliers to deploy a variety of channels and continuously test, learn and adapt their engagement strategies. Suppliers should monitor the effectiveness of different channels, approaches, and propositions to develop customer journeys that are appropriate to specific customer cohorts. This includes the use of more sophisticated customer segmentation and tailored messaging, taking into account information gathered about customers' motivations, needs and concerns, and using this to refine the consumer engagement journey. We expect to see suppliers adopting and implementing best practice approaches identified by BEIS and other partners.

While consumers are not obliged to have a smart meter installed, suppliers should consider appropriate re-contact strategies based on customers' preferences, contact history and reasons for not previously accepting a smart meter. Overly repetitive and coercive approaches to consumer engagement, as opposed to innovative and tailored re-contact strategies, can be counterproductive to the successful achievement of the rollout obligations.

More generally, suppliers should be considering how they can proactively promote the benefits of smart metering and address any challenges or risks to positive consumer engagement. This includes working effectively with Smart Energy GB, as well as engaging with local and community initiatives aimed at promoting the benefits of smart meters, in order to maximise uptake.

We are keen to see evidence of how suppliers are anticipating lifting their conversion rates in future efforts, taking the above elements into account.

## Consumer experience

In delivering against the 2020 obligation, suppliers must ensure that they also comply with their other relevant obligations, including the Smart Metering Installation Code of Practice (SMICoP)<sup>8</sup> and the Standards of Conduct.<sup>9</sup> These obligations should ensure that customers have a positive experience of the smart metering journey. Again, this is equally important for domestic and non-domestic consumers. We are actively monitoring and engaging with suppliers where we see risks to compliance. Where suppliers continue to fail to address these risks, we will consider taking action in line with our enforcement guidelines.

### *Standards of Conduct when communicating with customers*

All communications with customers must be complete, accurate and not misleading, as required by the Standards of Conduct Licence Condition. Suppliers should monitor engagement effectiveness in terms of generating installations but also be mindful of, and monitor, the consumer experience, adapting their engagement methods based on learnings. Suppliers should have processes in place to ensure all interfaces with customers – whether face-to-face, over the phone or in writing – by third parties or employees, are compliant. This includes monitoring these communications and their impacts, as well as ensuring that business processes, such as staff training and performance management, support engagement that is compliant. While we encourage testing of different approaches, suppliers must consider whether the approach is appropriate for the consumer.

For example, we re-iterate our stance<sup>10</sup> that, while it is appropriate for suppliers to use deemed appointments as part of a wider suite of consumer engagement tools,<sup>11</sup> this is unlikely to be appropriate for all consumer groups, for example some vulnerable consumers. Suppliers need to monitor experiences and consider circumstances under which deemed appointments may not be appropriate.

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

SMICoP aims to ensure that consumers receive a high standard of service throughout the installation process.<sup>12</sup> Supplier compliance with the obligations in SMICoP is mandatory, and is crucial in ensuring a good overall consumer experience.

For example, suppliers are required to provide tailored energy efficiency advice to both domestic and microbusiness consumers. We are encouraged by the recent improvements we have seen in some suppliers' performance on energy efficiency advice provision and expect to see this performance sustained. However, a number of suppliers need to make significant improvements.

We expect suppliers to: embed delivery of energy efficiency advice into all customer journeys, planning for how the advice will be made relevant and memorable; ensure adequate training and monitoring is in place for installers, including third party installers; and provide appropriate materials to support delivery. BEIS have published guidance to support delivery and we would expect suppliers to take this into consideration.<sup>13</sup>

We would also like to remind suppliers that they have obligations to:

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<sup>8</sup> Standard Conditions 41 and 42 of the electricity supply licence, and 35 and 36 of the gas supply licence.

<sup>9</sup> Standard Conditions 0 and 0A of both the electricity supply licence and the gas supply licence.

<sup>10</sup> Ofgem open letter in [June 2017](#).

<sup>11</sup> A deemed appointment is 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.

<sup>12</sup> [SMICoP](#)

<sup>13</sup> [BEIS best practice guidance for the delivery of energy efficiency advice](#)

- clearly demonstrate equipment, taking into account known vulnerabilities or specific needs (such as visual impairment). Suppliers should ensure they have processes in place to identify customers with specific needs, such as visual impairments, and who may need an accessible IHD, including providing these retrospectively where installations have occurred before the technology has become widely available.
- self-certify compliance with SMICoP before starting to install smart meters; actively review SMICoP to ensure it remains fit-for-purpose in light of consumer research; have a single independent audit once they have over 10,000 customers; and have regular customer surveys to monitor their compliance with SMICoP.

### Installers

Generally, suppliers have been able to secure the capability, capacity and flexibility they need from smart meter installers to support delivery of their rollout plans. However, some suppliers have recently reported that their installation partners are not willing to commit resources in light of their current levels of installation activity. Third parties play a crucial role for suppliers in many areas of the rollout, however suppliers are ultimately accountable under their licence for delivery. Suppliers must ensure that they are able to fulfil demand for smart meters, including quickly and safely increasing installer resource in light of any increase in demand as a result of their engagement activity.

Maximising successful installation is also critical and suppliers should have plans in place to reduce installation abort rates, for example by ensuring relevant questions are asked during the appointment booking which may highlight potential technical issues; and applying lessons learned. We also expect suppliers and network distributors to work together to minimise the disruption for customers where network issues are identified at installations.

Suppliers must ensure they have robust procedures and assurances in place that ensure installers are operating in line with health and safety standards, including as rates of installation ramp up. This will include, but is not limited to, ensuring adequate oversight of procedures and outcomes relating to personnel selection, training, mentoring, auditing, work processes and actions being taken to resolve issues. Suppliers are ultimately accountable for the safety of installations they carry out – including when that work is being undertaken by a third party acting on their behalf.

### **Expectations for 2019**

We have signalled to larger suppliers that we will accept any request a supplier makes with regards to submitting a revised rollout plan on 31 January 2019.<sup>14</sup> We once again encourage suppliers who think they may wish to do so to seek early agreement from us. If a supplier subsequently decides it does not wish to submit a revised plan in January 2019, the previously accepted plan and annual milestones will stand.

Suppliers are likely to learn a lot from their experiences in 2018, particularly from their consumer engagement activities and the transition to SMETS2, which may shape revised plans. We remind suppliers that the revised plan and annual milestones must be duly justified and must demonstrate how they will take all reasonable steps to meet the 2020 obligation.<sup>15</sup> This includes reflecting on learnings in order to provide both qualitative and quantitative evidence in support of any assumptions made, and in demonstrating how the annual milestones have been arrived at.

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<sup>14</sup> Standard Condition 44.6(b) of the electricity supply licence, and 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.

<sup>15</sup> As per the [framework](#) for setting annual milestones.

## **Reminder of other regulatory obligations**

### *Continuation of Arrangements on Change of Supplier*

Suppliers are obliged when gaining a smart customer 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. We have some evidence that suggests suppliers may not be fully complying with these obligations and we encourage suppliers to assure themselves that they are compliant. We will continue to monitor this area.

### *Rollout obligations*

Below is a reminder of some key regulatory dates:

- requirements on non-domestic suppliers to become a DCC user by 31 August 2018;
- the SMETS1 end date of 5 October 2018, after which new installations of SMETS1 meters (and any 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 advanced metering exception end date of 5 October 2018, after which new installations of advanced meters will no longer 'count' towards a suppliers' smart meter rollout obligations; and
- the date by which any current transformer electricity meter installed or arranged to be installed at a domestic premise must be an advanced meter (date to be defined in due course by BEIS).

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 licence obligations.

**Jacqui Russell**  
**Head of Smarter Metering and Market Operations**