



Making a positive difference
for energy consumers

To all suppliers and other
interested parties

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Dear Stakeholder,

Open letter on lessons from Ofgem's advanced meter rollout (AMR) investigations to consider in respect of the smart meter rollout obligation

Background

Under the advanced meter rollout (AMR) obligation, suppliers were required to take all reasonable steps to roll out advanced meters to their medium and larger business customers by April 2014¹ (in total, some 183,000 gas and electricity meters).

Following the conclusion of the advanced meter rollout, Ofgem opened investigations into British Gas, E.ON and npower's compliance with the AMR obligation. In December 2015 and January 2017, Ofgem reached settlements with E.ON and British Gas of £7 million² and £4.5 million³ respectively for failing to comply with the AMR obligations. In September 2018, the Enforcement Decision Panel (EDP) issued its determination of Ofgem's final AMR investigation⁴. The EDP imposed a penalty on npower of £2.4 million and the decision concludes the last of three investigations.

Energy suppliers are currently obligated to deliver the rollout of smart meters. Under this obligation, energy suppliers must take all reasonable steps to roll out smart meters to all of their domestic and small business customers by the end of 2020⁵. As was the case with the AMR, Ofgem's role is to provide regulatory oversight, ensuring consumers' interests are protected, and to monitor and investigate where we believe a supplier may be in breach of the relevant licence obligations.

Key observations

As we enter the final two years of the smart meter rollout, there are a number of lessons to be learned from Ofgem's AMR investigations that are worth highlighting as suppliers work to meet their smart meter obligations.

It is important to note that although there are lessons to be learned from the AMR, there are significant differences between the two obligations. As such, any steps identified as reasonable in the context of the AMR, may not be considered reasonable in the context of

¹ Gas and Electricity Supplier Standard Licence Conditions 12

² <https://www.ofgem.gov.uk/publications-and-updates/investigation-e-s-compliance-its-obligations-under-electricity-supply-licence-standard-licence-condition-12>

³ <https://www.ofgem.gov.uk/publications-and-updates/investigation-british-gas-compliance-its-obligations-under-electricity-supply-licence-standard-licence-condition-12>

⁴ https://www.ofgem.gov.uk/system/files/docs/2018/09/edp_final_decision_penalty_notice_npower_14_september_2018.pdf (p.14)

⁵ Gas Supplier Standard Licence Condition 33 and Electricity Supplier Standard Licence Condition 39

the smart rollout; and vice versa. Bearing this in mind, we would like to draw suppliers' attention to the following observations from the AMR that we consider might be useful for suppliers in the context of the smart meter rollout:

- 'All reasonable steps'
- Decisions to impose penalties

The observations made here, and in previous letters, should not be considered an exhaustive list of all the steps that could reasonably be taken by an individual supplier.

'All reasonable steps'

In making its decision regarding compliance with the AMR obligation, the EDP sought to objectively evaluate whether npower had taken 'all reasonable steps' to deliver their obligation. In doing so, the EDP highlighted that *"There was no fixed measuring stick by which the reasonableness of any particular measure at any particular time could be assessed. It would depend upon all the circumstances"*.

This observation is consistent with Ofgem's previously stated approach to evaluating all reasonable steps. In the context of the smart meter rollout, we intend to evaluate whether a supplier has taken all reasonable steps with its smart meter rollout obligations once the deadline has passed. Following the 2020 deadline, Ofgem will be in a position where it is able to evaluate all the steps taken by individual suppliers on a case-by-case basis and with a greater view of how the rollout has progressed in the round.

Like the AMR, the smart metering obligation is dynamic and we expect suppliers to monitor and adapt their plans as the rollout progresses. This will include working to mitigate any challenges and risks they face in all areas pertaining to the rollout. In particular, we consider that the AMR cases highlighted a number of key lessons to consider in the following areas relating to suppliers' 'all reasonable steps' obligation.

Programme governance and oversight

A common theme across all three AMR cases was that the suppliers in question failed to put in place adequate internal programme governance and oversight throughout the AMR. As a result, the suppliers failed to identify reasonable steps that could have been taken and thus to act in time to meet their obligations.

Different suppliers operate in different ways and face both similar and different challenges in installing smart meters. It is, therefore, of critical importance that suppliers are continuously evaluating, within the context of their rollout, whether they are taking 'all reasonable steps' to meet their obligation. This requires senior governance and oversight of the programme and Ofgem expects suppliers to have such structures in place.

Consumer engagement

The AMR decisions emphasised that effective consumer engagement was an important factor in determining whether a supplier had taken all reasonable steps to meet its AMR obligation. This will also be key in the context of the smart meter rollout.

Effective engagement is a critical element of suppliers' obligations to take all reasonable steps to install smart meters by the end of 2020 and we expect to see suppliers step up their efforts to ensure a strong focus in this area. This is equally important for both domestic and non-domestic consumers. Suppliers' ability to effectively engage consumers will become ever more important as the roll-out progresses.

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 also 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.

Interoperability

In relation to the AMR cases, British Gas, E.ON and npower were all found not to have taken 'all reasonable steps' to resolve issues around interoperability of advanced meters between suppliers. This was considered a serious breach of their licences which left affected non-domestic customers unable to access the benefits of advanced meters.

In the context of the smart meter rollout, the Data Communications Company (DCC) is working towards enrolling SMETS1 meters which, subject to suppliers taking the appropriate steps to enrol their meters with the DCC, will resolve current interoperability issues. SMETS2 meters will be enrolled directly into the DCC upon installation⁶. Ofgem expects suppliers to enrol SMETS1 meters in line with their obligations⁷ and indeed operate these meters upon enrolment⁸. We consider that it is of critical importance that suppliers take a proactive approach to solving any interoperability issues. This will involve continuing to work with the DCC to overcome any technical issues as they arise and carrying out sufficient and timely testing.

Decisions to impose penalties

In its decision on whether to impose a penalty on npower for breaches of the licence, the EDP noted that the AMR was an important Government policy that had been made a condition of each supplier's licence. The EDP considered that the failure to comply with their obligations was serious and therefore found it appropriate to impose a financial penalty.

We expect suppliers to be mindful that in the context of the smart meter rollout, the obligation is much greater due to the scale and breadth of the rollout and therefore the importance the rollout has in the Government's energy policy. In this light, we will continue to provide regulatory oversight, ensuring consumers' interests are protected, and to monitor and investigate where we believe a supplier may be in breach of the relevant licence obligations.

Yours faithfully,

Jacqui Russell
Head of Metering & Market Operations, Consumers & Markets

⁶ Gas Supplier Licence Condition 48 & Electricity Supplier Licence Condition 54

⁷ <https://www.gov.uk/government/consultations/maximising-interoperability-for-first-generation-smets1-smart-meters>

⁸ Gas Supplier Licence Condition 43 & Electricity Supplier Standard Licence Condition 49