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The implementation and regulation of smart metering: an open letter to the industry

The Smart Metering Implementation Programme (“the Programme”) aims to roll out smart meters to domestic electricity and gas consumers, and smart or advanced meters to smaller non-domestic consumers, by the end of 2020.

This open letter, issued jointly by the Department of Energy and Climate Change (DECC) and Ofgem, clarifies how we will act in relation to the design, implementation, operation and regulation of the Programme. Following a review of the governance of the Smart Metering Implementation Programme by David Hendon in June this year, we believe it is important to make a clear statement to industry about our respective roles.

Summary of our roles

DECC is responsible for government policy on smart metering, for the design and overall implementation of the Programme, and for the realisation of its benefits to energy consumers. Ofgem is responsible for regulating licensed energy suppliers, network operators and the Data and Communications Company (or “DCC”). Ofgem’s principal objective is to protect the interests of current and future energy consumers. In carrying out its functions, it has a duty to make sure the electricity and gas markets operate effectively.

DECC and Ofgem are independent organisations and act in accordance with their own priorities, duties, and obligations. While we recognise this, we strive to reach an aligned position including on smart meters, where we are working in partnership to secure a successful rollout that is for the benefit of energy consumers.

Programme leadership by DECC

The Government’s policy is that energy suppliers are primarily responsible for delivering the benefits of smart metering to their customers. They do so as part of a competitive retail energy market, supported as required by energy network operators.

DECC has established and led the Programme to put in place the regulatory, commercial and technical framework that requires smart meters to be rolled out in a way that protects consumers and enhances competition. DECC's aim is ultimately to leave the management and evolution of smart metering to energy industry participants. This will be governed through the arrangements set in the Smart Energy Code and subject to regulatory oversight by Ofgem. DECC will then remain responsible for the Government's retail energy policy and for the realisation of the benefits set out in the Programme's business case. If necessary, DECC will introduce further regulation to protect these benefits, using its powers in the Energy Acts 2008 and 2011.

DECC expects industry parties to meet their obligations to take all reasonable steps to roll out smart meters. In doing so, we expect them to act collectively (in accordance with the rules of competition law) to put in place the common processes and functions necessary to realise the benefits of smart meters and to sustain and enhance a competitive market. DECC will take action to make sure that the remaining collective issues which could impede an effective rollout of smart meters are addressed. However, DECC does not expect to deliver further technical or logistic solutions itself but will instead act to ensure that industry parties deliver solutions through collective action or in response to regulatory obligations.

DECC's current leadership roles therefore include:

- aligning, scrutinising and driving the delivery plans of the DCC, energy suppliers and network operators;
- acting to contain costs and enhance benefits;
- introducing further regulation if necessary to sustain policy objectives, overcome barriers to implementation and to help ensure benefits are realised;
- managing changes to the Smart Energy Code and making certain determinations on appeals, disputes and issues in relation to testing under governance arrangements during the transition period; and
- ensuring industry parties find collective solutions to shared issues.

In parallel with this DECC will gradually transfer its remaining technical and governance responsibilities to the Smart Energy Code Panel or other industry bodies. DECC will also determine the timing of the commencement of DCC's initial enrolment project to enrol SMETS1¹ meters which will need to balance successful delivery of the SMETS2 system with the industry-wide benefits of enrolled SMETS1 meters.

¹ Smart Metering Equipment Technical Specifications

Ofgem's regulation of industry parties

Ofgem is responsible for ensuring that energy suppliers, network operators and DCC comply with their licence obligations. Ofgem can create new licence conditions and modify or remove existing conditions. In deciding whether to take enforcement action, Ofgem applies its prioritisation criteria, as set out in its Enforcement Guidelines. These include having regard to better regulation principles of transparency, accountability, proportionality and consistency and only targeting cases in which action is needed.

Ofgem is also a competition authority and has powers to take enforcement action where it encounters anti-competitive conduct or agreements in the energy sector.

Regulation of smart metering

Energy suppliers have a licence obligation to take all reasonable steps to ensure that a smart metering system is installed before the end of 2020. To that end, from 2016 the larger suppliers² must submit rollout plans which will include binding and enforceable annual milestones. Ofgem may take enforcement action should suppliers fail to meet their own targets. In the future, when considering whether suppliers are meeting their smart meter obligations, Ofgem will take into account the actions they are taking today to prepare for rollout. This will be informed by suppliers' existing compliance performance with the advanced metering rollout obligation.

DECC has placed obligations on larger energy suppliers to establish, support, fund and monitor Smart Energy GB, and on smaller energy suppliers to fund its operating costs. Energy suppliers have a duty to ensure that Smart Energy GB delivers its objectives in a way that is transparent, impartial and cost-effective. Ofgem will assess energy suppliers' compliance with these obligations.

As part of the RIIO ED1 network price control, Ofgem expects electricity distribution network operators to deliver operational efficiencies and direct consumer benefits through their use of smart metering data. Ofgem will approve electricity distribution network operators' plans for obtaining smart meter consumption data from 2015.

During the design and build stages of the Data and Communications Company, DECC will continue to direct the DCC in relation to its planning and delivery milestones. It will also approve certain DCC work, such as technical subsidiary documents that form part of the Smart Energy Code. As part of this, DECC will take into account the views of Ofgem, DCC service users and other SEC Parties.

During the design and build stages Ofgem is responsible for:

- overseeing the DCC's compliance with its licence obligations;

² A large supplier is one who supplies 250,000 or more gas, electricity or dual fuel customers

- the DCC's transitional incentive regime; and
- making decisions on the DCC's price control and applications to adjust the DCC's baseline margin values.

Ofgem will develop a new DCC incentive regime to apply once the DCC has begun providing operational services.

Related initiatives

DECC and Ofgem are working further to ensure that consumers receive the full benefits of the rollout of smart meters.

These initiatives include centralising registration as part of Ofgem's initiatives to introduce reliable next-day switching and to introduce half-hourly settlement using data from smart meters.

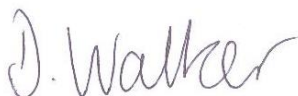
Both Ofgem and DECC support existing network-run registration services being centralised under the DCC. Ofgem will lead this work and is responsible for its timing and delivery.

Further, we both agree that it is in consumers' interests to be settled against their half-hourly consumption data, and smart meters make it possible to improve significantly the accuracy and timeliness of the settlement process. An industry expert group, chaired by Ofgem with DECC attending as an observer, has been established to shortlist options for further consideration.

Finally, both DECC and Ofgem collect smart metering information from energy suppliers. We will work to avoid unnecessarily asking the industry for duplicate information.

We remain committed as organisations to ensuring implementation and regulation of smart metering that is for the benefit of consumers. Where necessary, we will publish further open letters to industry in the future to re-clarify our respective roles and objectives.

Yours faithfully,



Daron Walker
Senior Responsible Owner
Smart Metering Implementation Programme
DECC



Rachel Fletcher
Senior Partner, Markets
Ofgem