

Dame Meg Hillier MP
Chair, PAC Select Committee
House of Commons
London
SW1A 0AA

6 July 2023

Dear Dame Meg,

RE: Follow-up from PAC Committee session on 'The rollout of smart meters'

Thank you for inviting me to give evidence to your committee on 22nd June. I hope that the committee found the session useful and I'm grateful that the energy sector could be represented.

I promised to follow up to the committee on the questions I received regarding standing charges in the retail market, what they are, what they achieve, and what industry's plan is to reduce them, as well as more information around the meters that are not 'smart' and how the sector will work to upgrade them.

Standing charges

The standing charge is a fixed daily amount a customer pays for energy, regardless of the volume used. This charge covers, among other things:

- Use and maintenance of the supply network.
- Meter reading visits.
- Government support schemes.
- The standing charge cap varies by region and payment method.

Standing charges are capped by Ofgem. Ofgem recently announced that, from 1 July, the daily standing charge for electricity will be capped at £0.50, and gas will be £0.29. Suppliers do not have to charge up to this level, and can choose to allocate between standing charges and unit costs, as per the Octopus Energy standing charge holidays (the example used in the Committee evidence session). Therefore this is a question of cross subsidy.

Ofgem consulted last year on whether the Supplier of Last Resort levy within the price cap (covering suppliers going out of business) should continue to be covered by the standing charge, concluding that this approach is fairer than putting it in the tariff¹. Vulnerable and low income customers who are high users and live in leaky homes would be impacted if these costs went into unit rates instead of having a standing charge.

Any changes to this framework must be properly consulted on to ensure that they do not have unintended consequences, or an adverse impact on vulnerable customers.

A further point which may be relevant: Government has levelised prepayment and direct debit price caps through the Energy Price Guarantee which will be in place until March 2024, and Ofgem consulted recently on extending this levelisation beyond this date.

¹ <https://www.ofgem.gov.uk/publications/follow-our-review-arrangements-recovering-costs-supplier-failure>

Upgrading non-operating smart meters

Numbers of non-operating smart meters are reducing thanks to a concerted industry and Government effort. Daron Walker from DESNZ gave evidence at the session in which he clarified the makeup of the current c3 million non operating meters:

- those which have been installed but are not able to be 'commissioned' (connected to the DCC) (about 30% of the 3 million, according to DESNZ' evidence);
- those which were working at point of installation but have since lost communication (around 40%-45% of the 3 million, per DEZNZ' evidence as above); and
- those which are in the process of being handed over to the new supplier on a switch (around 20%, per DEZNZ' evidence as above).

The first two issues impact both 'first generation' SMETS 1 and SMETS 2 meters, whereas the third issue only impacts SMETS1 meters.

Suppliers have an 'all reasonable steps' obligation to replace SMETS1 meters that can't be enrolled in the DCC systems (can't communicate with DCC). This sits alongside their hard target obligation for smart meter installations. A supplier could be subject to enforcement action as a result of failing to meet either obligation.

Suppliers have mature processes in place to address metering issues, and getting meters working is critical to a positive customer experience. Suppliers also have commercial reasons to want to keep smart meters working – they have met the upfront cost of the meter and installation, but if the meter is not operating in smart mode this investment is not being returned in the form of supplier-side benefits.

Having followed up with our members, I have set out below a summary of supplier approaches in this area. I also attach DESNZ' best practice guidance on this matter which was developed in collaboration with suppliers, and was published in March 2023.

Identification, reporting and collaboration

- Suppliers can proactively and reactively identify meters which are not operating through monitoring and customer contact.
- Suppliers have dedicated teams in place which look at current and potential issues, with weekly, monthly and quarterly reporting in place to monitor the operational status of their smart meters. These teams can determine the nature and root cause of a meter not working.
- Advanced reporting - including data from a range of sources - can be used to prioritise, target and manage remedial actions where needed.
- This activity is supported by a range of engagement with rollout delivery partners.

Remedial action

- Suppliers use outbound calls, letters, texts and online account notices to inform customers of issues with their smart meter, and to keep them up-to-date with progress on the resolution.
- Suppliers will try to resolve the issue remotely by sending messages and fixes, such as updated 'firmware', to the meter. This may involve working with meter manufacturers, communications providers, or the DCC. Where a remote fix cannot be deployed - or it fails to resolve the issue - the case will be passed to the relevant team to arrange a site visit in order to fix or exchange the meter.
- It is worth noting that there is a proportion of meters (c.3 – 4%) within each suppliers' portfolio which will require improved signal strength or further development of technology to operate as

smart. This means the supplier's role may instead be to manage customer expectations around their meter function, and inform them that - in the meantime - they will need to continue to provide meter reads.

Evolving approach

- Members note that they are identifying areas of improvement and evolving their processes in a number of areas. These include customer contact around issue resolution and engagement with third party installers and delivery partners (for example by using workshops to streamline processes highlighted above).

If you have any further questions please do not hesitate to contact me.

Yours sincerely,

Daisy Cross
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