CROSS8

# EXECUTIVE SUMMARY - UNLOCKING THE BENEFIT OF **SMART** FOR CONSUMERS

Optimising the smart meter rollout post 2025

# EXECUTIVE SUMMARY

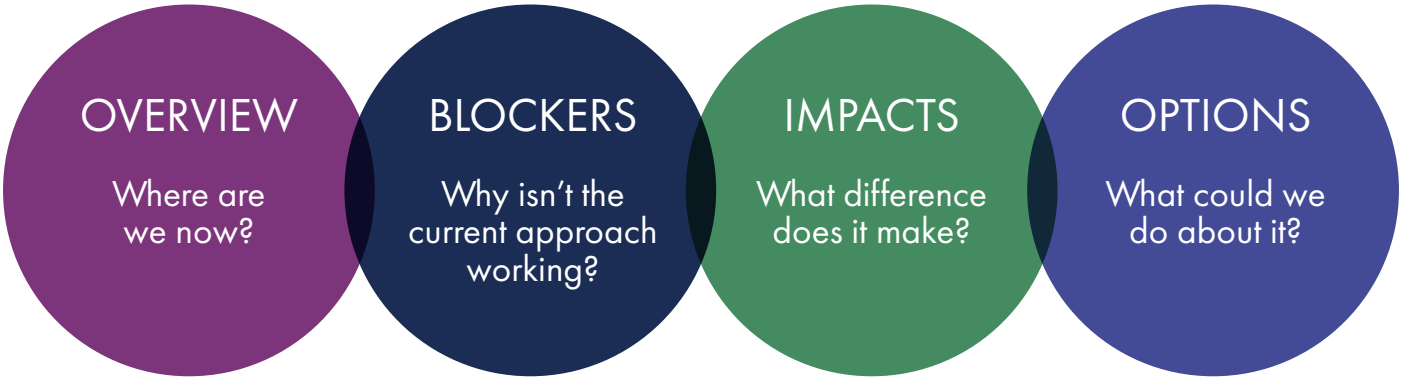
## THE SMART METER IMPLEMENTATION PROGRAMME (SMIP) REPRESENTS ONE OF THE MOST AMBITIOUS INFRASTRUCTURE PROJECTS UNDERTAKEN IN THE UK ENERGY SECTOR.

Significant progress has been made, with a working smart meter now in 57% of eligible homes and businesses. However, the current approach has become inefficient and things must change if the remaining 43% of customers are to get access to the benefits of smart.

The consultation due in autumn 2024 provides a prompt to rethink the approach, and it is essential to be bold so that we do not miss the opportunity it presents. For several of the options we recommend in the paper it is possible to act now, without waiting for regulatory change.

This paper serves as a call to action to engage with the challenges presented by the SMIP and to think radically about what comes next.

## THE PAPER ANSWERS FOUR KEY QUESTIONS:



THESE ARE THE KEY TAKEAWAYS:

1. ***The programme has missed its original deadline by several years, and the current trajectory means it will fail to hit the 2025 goal***

   By June 2024, only 63% of homes and small businesses had a smart meter, against a target of 100% by 2019. And 10% of those smart meters were not operating in smart mode, meaning only 57% of the total meters in Britain were actually working smart meters.

   The current binding target set by DESNZ is 74.1% by the end of 2025. Based on the installation rate in the first half of 2024, Cross 8 estimates the programme will only reach 69 - 71% by that point.

2. ***Four major barriers are preventing the rollout being a success***

- **Consumer Engagement and Trust.** The current strategy has failed to convince a large portion of the public. 63.7% of customers without smart meters are not interested in getting one, often citing concerns over privacy, data usage, and distrust in energy suppliers.
- **Regulatory and Incentive Structure.** Mandating suppliers alone has unintentionally closed down incentives for other parties. The regulatory framework relies upon installation volume targets applied to a single party, energy suppliers, with penalties to enforce behaviour. This has not proven an effective motivator because the incentives do not outweigh the costs.
- **Inefficient Supplier Led Approach.** The supplier led model has become increasingly inefficient. Inherent inefficiency from the non-geographic distribution of customers across suppliers has been exacerbated by relying on consumer demand which, as already shown, is patchy. Abort rates of between 14% and 42% reduce efficiency still further.
- **Technical and Logistical Constraints.** The rollout has been delayed by non-communicating meters, challenges in specific housing types, and the difficulty of matching longer cycle installer capacity to short cycle demand. This has led to reports of suppliers "poaching" installers from competitors and installation costs rising from £173 in 2019 to £256 in 2023.

3. ***Consumers are missing out...***

   Flexible tariffs and new data products that help inform people about their energy use and reduce costs, depend on smart meters. And low carbon technologies are more easily available to those with smart meters. People with smart meters are three times more likely to have an electric vehicle than those without, and almost twice as likely to have some form of low carbon heating – 32% with a smart meter against 17% without.

4. ***... and worse, the current rollout capabilities have reinforced existing energy inequalities***

   The headline figure of 63% of meters being smart is not evenly distributed. While all energy customers pay equally for the smart rollout through the standing charge, only 43% of private renters have a smart electricity meter fitted, and only 32% have a smart gas meter. Data from Smart Energy GB shows that people under 35, those flagged as vulnerable, and people on low incomes, were all less likely than average to have a smart meter. Homeowners, men, and those on high incomes meanwhile, all reported having a smart meter at significantly above average rates.

### 5. *The programme is delaying the environmental benefits*

Each time it has missed its deadlines, the programme has postponed the realisation of significant direct carbon savings, and the inefficient rollout approach increases its impact on the environment (from things like the emissions from installation visits and the disposal of traditional meters). In addition, by restricting the low carbon technology market, it is further delaying the path to net zero.

### 6. *Targeted changes could make a significant difference to the results - It is not too late to realise the benefits for all customers*

We are proposing that 8 recommendations are considered to create a more flexible, consumer centric approach.

6.1 **Open Installation Market.** Allow accredited MEMs to install smart meters independently, increasing competition and efficiency.

6.2 **Introduce Targeted Mandates.** Mandate smart meter installations in certain situations to increase coverage while minimising direct consumer inconvenience, e.g. new developments, high consumption premises, private landlords.

6.3 **Focus Rollout on Specific Consumer Groups.** Prioritise the rollout towards particular groups of consumers, e.g. prepayment customers. This would allow more targeted messaging focused on demonstrable value, and potentially address the disparity between different groups, e.g. renters and homeowners.

6.4 **Revise Incentives and Penalty Structure.** Redesign the incentive structure to better align with net zero goals. This could include direct financial incentives for consumers (e.g. cash-back offers) and wider incentives to encourage more proactive participation from all stakeholders.

6.5 **Geographic Rollout.** Implement a localised, concentrated rollout strategy to reduce inefficiencies, improve success rates, and streamline installation efforts.

6.6 **Improve Messaging.** Shift communication focus from smart meters to the benefits of energy management and decarbonisation, improving consumer engagement and trust.

6.7 **Open Data Market.** Create a more open, competitive market for smart meter data, allowing third parties to innovate and offer new consumer services.

6.8 **Workforce Development.** Invest in training and developing a skilled workforce to address installation bottlenecks, ensuring long-term programme sustainability and ensure the programme is sustainable over the long-term. This could include multiskilled training to reduce engineer turnover and improve customer satisfaction.

These options are additive, i.e. none of them should be considered a solution to every issue we identify, but each of them could accelerate the rollout and ensure that its benefits are realised by all. Above all they are intended to provoke further thought.

| | Customer | Commercial | Environmental | Innovation | Regulatory |
|---|---|---|---|---|---|
| 6.1 Open Installation Market | ● | ● | ● | ● | ● |
| 6.2 Introduce Targeted Mandates | ● | ● | ● | ○ | ● |
| 6.3 Focus Rollout on Consumer Group (e.g. prepay) | ● | ● | ● | ○ | ○ |
| 6.4 Revise Incentives and Penalty Structure | ● | ● | ● | ○ | ● |
| 6.5 Geographic Rollout | ● | ● | ● | ○ | ○ |
| 6.6 Improve Messaging | ● | ● | ● | ○ | ○ |
| 6.7 Open Data Market | ● | ● | ● | ● | ● |
| 6.8 Workforce Development | ● | ● | ● | ○ | ○ |

● Major Impact ● Medium Impact ● Minor Impact ○ No Impact

## 7. *Now is the time to act*

Several factors are coming together right now to give the energy industry a real opportunity that should not be missed:

- the end of the current SMIP Target Framework in 2025
- a new government with renewed focus on achieving net zero by 2050
- the advent of Market-wide Half-Hourly Settlement in 2025

The Smart Metering Implementation Programme is at a pivotal moment. Some of the options we recommend will no doubt be challenging to implement, but these challenges need to be considered in light of the challenges and consequences of the existing approach. Without significant changes, the UK risks falling short of its energy transition goals, with lasting consequences for consumers, the environment, and the economy.

What is more, several of the options could be implemented ahead of any regulatory changes and we believe consideration should be given to them immediately to inform the consultation, rather than waiting for it to complete and losing another year.

**By working together and embracing bold, innovative solutions it is possible to avoid creating a dual track market where the benefits of smart meters go to those who need them least. But action must be taken now.**

The paper was funded by SMS plc and written independently by Cross 8, a consultancy specialising in leading transformations across Utilities, Financial Services, and Infrastructure. Input came from parties across the energy industry and beyond: consumer groups, regulators, smart device manufacturers, meter operators, energy suppliers, data analytics firms, meter asset providers, banks, and app developers.

# ABOUT CROSS 8

CROSS 8 IS A MANAGEMENT CONSULTANCY THAT SPECIALISES IN LEADING TRANSFORMATIONS ACROSS UTILITIES, FINANCIAL SERVICES, AND INFRASTRUCTURE – WHETHER THAT'S EMBEDDING DIGITAL TRANSFORMATION OR DELIVERING COMMERCIAL OPTIMISATION.

Since we were founded in 2013, we have been focused on creating the best business possible... for our people and our clients. For our people that starts with careful hiring – we look for highly experienced professionals, averaging 20 years of expertise, so we can make a big impact with small teams. For our clients it means being a trusted partner and ensuring every engagement delivers enduring, positive change that leaves them stronger.

## SMART METERING EXPERIENCE

We have a long track record of working with a variety of organisations to help them deliver their Smart Metering Implementation Programmes. From large and small energy suppliers to meter asset providers, meter manufacturers and meter operators, our experience has given us insight into what it takes to run a successful smart meter programme. And we have translated that experience into actionable deliveries for clients outside of the energy industry, optimising smart meter deployment and resolving operational challenges for major infrastructure providers.

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