

# Approach to IA

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## Approach to Impact Assessment

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Guaranteed Standards of Performance (Guaranteed Standards) place specific levels of service on suppliers when they have specific interactions with consumers. The accompanying policy consultation outlines our proposals to introduce new Guaranteed Standards in specific areas of smart metering.

We are seeking additional evidence regarding these proposals through an associated Request For Information (RFI), which will be issued directly to energy suppliers, to better understand the potential costs associated with these proposals. This document outlines our approach to establishing an Impact Assessment.

## **Annex** – Approach to Impact Assessment

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## 1. The case for intervention

In this chapter we describe the current issues affecting smart meter installations, and operations, and explain our rationale for proposing new Guaranteed Standards.

1.1 Ofgem strives to make the energy market more effective for consumers by:

- committing to safeguarding consumers
- ensuring consumers experience a high level of service from their energy suppliers.

1.2 Our [multiyear strategy](#) includes using our regulatory powers to drive up standards and hold the energy sector to account.

1.3 Our proposed interventions are to introduce Guaranteed Standards in specific areas of smart metering, which will ensure consumers receive a high quality of service from their energy suppliers in these areas. As noted in the accompanying policy consultation there is no specific Guaranteed Standards that relate to smart metering, which we aim to address given that the majority of premises in Great Britain now have a smart meter. Compensation for consumers is essential for increasing their confidence in the energy market. It also offers opportunities to suppliers to play a key role in improving consumer outcomes.

1.4 We consider there are strong grounds for interventions by introducing four new Guaranteed Standards regarding specific areas of the consumer smart meter journey, where consumers are experiencing a poor level of service. Our rationale for each of the proposed Guaranteed Standards is set out in the accompanying policy consultation, and summarised as:

- **Smart metering installation appointment availability** – Many consumers who would like to access the benefits of smart meters are unable to book an appointment from their energy supplier or are exposed to lengthy wait times for appointments. As the rollout continues, we expect that all consumers should be able to have access to a smart meter installation quickly, and if not, be compensated
- **Smart metering installation failures** – Where a consumer has booked an appointment and the energy supplier has not done everything within its control to ensure this appointment is successful, we consider it is

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reasonable that a consumer should be compensated for this inconvenience

- **Investigating smart meter operational issues** – Consumers who report issues with their smart meter once it is installed can often face difficulty when contacting their energy supplier about these types of issues. Some consumers find that they are left without a clear understanding of the issue, or the route to resolution
- **Smart meters not operating in smart mode** – We consider that consumers should be compensated where their smart meter does not operate in smart mode for a prolonged period of time. This is a key issue for consumers who want to engage with the benefits of smart metering.

1.5 These Guaranteed Standards will provide automatic compensation payments to consumers who experience detriment in key areas of smart metering. We consider these proposals will create incentives for suppliers to improve their performance when installing and operating smart meters. This workstream aligns with our strategic priority, set out in our [Forward Work Programme 2024/25](#), to shape a retail market that works for consumers by ensuring they receive a high quality of service.

1.6 We also recognise that there are other options, including enhanced enforcement or wider compliance against smart meter related licence obligations, that may improve consumer outcomes to some degree. Consideration of a “do minimum” option is an important part of the assessment process.

1.7 In this document, we outline the approach that we intend to take to assess the main impact of these proposals, other aspects, referred to in 2.13, will be considered in due course. It will be recognised, that one of the immediate benefits of our proposals are the changes in energy suppliers’ behaviour which is a result of their implementation. Smart meters are a key component of the path towards net zero as they provide the capacity for consumers to access new tariffs, innovative products and services and improve efficiency.

## 2. Our approach to calculating the impact of our proposals

Our Impact Assessment (IA) will describe the impacts of our proposals on various industry parties and consumers. The IA will follow our [Impact Assessment Guidance](#) and provide details on the rationale for intervention and aim to establish specific, measurable, achievable, realistic objectives. It will also consider the options below and their impact on various parties. This chapter explains our approach to calculating impacts and outlines how a RFI will inform our decision on our proposals.

- 2.1 In this chapter, we set out our proposed new Guaranteed Standards and alternative options intended to improve the consumer experience of smart metering and, therefore, increasing trust in the overall smart meter experience.
- 2.2 The IA document will inform our decision after the consultation. It will include three options that vary in degree of further intervention. First, a 'Business as Usual' baseline, in which no actions beyond current measures are introduced. Second, an option to pursue enhanced enforcement or wider compliance against smart meter related licence obligations. Third, in our associated policy consultation, we have proposed to introduce four specific Guaranteed Standards which are summarised below in paragraph 2.8. This involves the greatest change relative to current arrangements. We describe these options in more detail below.

### Option 1: Business as Usual

- 2.3 This is the counterfactual against which we will appraise "do something" options. Ofgem is currently undertaking compliance engagement with the six largest energy suppliers on smart meter installation performance and smart meters not operating in smart mode. There are currently no Guaranteed Standards for non-domestic consumers, except in making and keeping appointments which applies also to micro-business consumers. This would continue to be the case.
- 2.4 Our current key assumptions are:
  - no automatic compensation is provided to consumers for delayed appointments or failed smart meter installations, and for smart meters that are not operating in smart mode for more than 90 days

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- we assume that smart meter installations continue, and that smart meter operational issues continue to be tackled by industry at a similar rate
- current regulatory measures intended to drive the pace of smart meter rollout and address smart meter operational related issues, continue in line with supplier licence obligations.

2.5 If we find through our RFI, that compensation is being paid, then we will consider how this is being done. We will use actual compensation paid in this scenario as a baseline against which to measure the impact of alternatives.

### **Option 2: Enhanced enforcement or wider compliance against smart meter related licence obligations**

2.6 A possible alternative to proposed compensation through Guaranteed Standards, would be for Ofgem to implement an active enforcement, or wider compliance process, targeted on smart meter installations and smart meters not operating in smart mode licence conditions. Features of this option could include:

- Enhanced monitoring and increased data collection on areas of smart meter installations and smart meters not operating in smart mode, which would take place alongside existing regulatory practices undertaken by Ofgem
- We may wish to widen compliance actions out to more than just the six largest energy suppliers referred to in paragraph 2.3.
- We may also wish to use our enforcement powers for more serious cases, or where suppliers are not cooperating with our compliance team, which would be taken in line with our published [Enforcement Guidelines](#) and prioritisation criteria
- Ofgem has powers to impose financial penalties of up to 10% of a supplier's turnover. Ofgem may also impose orders requiring suppliers to take certain actions
- Under this model, consumers would not receive automatic compensation because of any detriment being suffered apart from compensation they are already entitled to under existing Guaranteed Standards
- It should also be noted that enforcement action or wider compliance action would only be possible against existing licence conditions.

- 2.7 This option would likely require an increase in the resources used by Ofgem for compliance and enforcement actions. It would also impose an equivalent responsibility and resource impact on energy suppliers to engage with this action.

### **Option 3: Guaranteed standards and automatic compensation**

- 2.8 Under this option, we propose the introduction of four new Guaranteed Standards with an automatic compensation mechanism for domestic and non-domestic consumers. These are summarised as below:

- ***Smart meter installation appointment availability***  
If a consumer requests a first time/new smart meter installation appointment, the energy supplier must offer the consumer an appointment to take place within six weeks of the request being made, otherwise the consumer receives compensation.
- ***Smart metering installation failures***  
If a smart meter installation fails due to a fault within the energy supplier's control, the consumer will receive compensation.
- ***Investigating smart meter operational issues***  
If a consumer reports a problem with their smart meter, the energy supplier must complete an initial assessment, take an appropriate action and offer to update the consumer, within 5 working days, otherwise the consumer will receive compensation.
- ***Smart meters not operating in smart mode***  
If a consumer's smart meter is not operating in smart mode, for over 90 days, due to an issue within the energy supplier's control to resolve, the consumer will receive compensation.

### **Our approach to appraising these options**

- 2.9 Our aim for each of the above-mentioned options is to incentivise suppliers to improve their performance and improve consumer outcomes, whilst avoiding consumer detriment. As we consider our proposed new Guaranteed Standards (option 3) are based on existing requirements within the supply licence and the overall value of compensation payments that are likely to be made, we will



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consider the proportionality of our analytical approach, in line with our [Impact Assessment Guidance](#), to determine the costs and benefits of our proposals.

- 2.10 We are requesting information on costs and current compensation payments as part of this work through an associated RFI.
- 2.11 One of the benefits of option 3 will be manifested as a direct payment between suppliers and consumers who have suffered detriment. We will consider this as a benefit, or a net consumer benefit, even though it is neutral in terms of gross economic benefit. We consider that these proposed Guaranteed Standards will lead to improvements in supplier performance. This will bring unquantified benefits such as improved consumer experience across industry and result in positive engagement of consumers with the energy market.
- 2.12 We may, if considered relevant, illustrate potential detriments in certain scenarios that could occur if the proposed Guaranteed Standards are not in place.
- 2.13 Our Impact Assessment guidance provides details on other factors that may be relevant to our decision. These include:
- a) Environment
  - b) Distributional Analysis
  - c) Security of Supply
  - d) Competition and financial resilience
  - e) Public Sector Equality Duty
  - f) Economic Growth
  - g) Transformational change
- 2.14 We consider that options 1, 2 and 3, outlined above, are likely to be beneficial in relation to<sup>1</sup> the impact on competition and financial sustainability of suppliers and other parties affected by our proposals.
- 2.15 Separate to the RFI, we welcome any input from stakeholders that provides insights into these aspects of the decision. We consider that it is unlikely that we will obtain sufficient information to estimate the potential distribution of impacts on domestic and non-domestic consumers. However, some indicative figures may be obtainable.

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<sup>1</sup> Points a),c),f) and g)

### 3. Identifying the costs of our proposals

In this chapter we attempt to identify where costs will arise because of the implementation of our proposed Guaranteed Standards.

- 3.1 Currently we have not sought to quantify the costs of these proposals, instead we have attempted to articulate where costs may occur because of implementation of our proposals.
- 3.2 We are gathering evidence with which we can calculate the costs through the RFI which will be issued after this consultation. A full IA will inform our decision on whether, and how, to move forward with these proposals, which will be published alongside any statutory consultation should we decide to progress a preferred option.
- 3.3 We are taking a bottom-up approach, where, as noted above, an RFI will be issued to suppliers to ascertain costs associated with these proposals. Broadly, these costs will be categorised as transitional costs to comply with our proposals, and ongoing costs associated with compliance with the Guaranteed Standards. We also seek to distinguish between the staff costs of complying with our proposals and IT systems. These costs will then be collated and aggregated to industry-wide costs. The basis of aggregation will be explained within the IA. Aggregate costs will be assessed against potential benefits. We will quality assure responses and if we deem certain costs to be outliers or inflated, we may disregard these.
- 3.4 An important component of an IA is the consideration of unintended consequences of intervention. Should any material unintended consequences be identified by stakeholders, we welcome this information and will give it due consideration.

#### Option 1: Business as Usual (the counterfactual)

##### Direct and indirect costs (cost of implementing proposals)

- 3.5 No additional costs would be incurred due to the ongoing implementation of existing mechanisms for smart meter installations and smart meter operations. We are aware that suppliers are already deploying resources to address these issues and contributing to existing industry initiatives.

## **Option 2: Enhanced enforcement or wider compliance against smart meter related licence obligations**

### **Direct costs**

3.6 A more intensive enforcement or compliance approach based on the BAU scenario would cause direct costs to be incurred by Ofgem. These costs could include the cost of:

- employing additional staff to undertake enforcement or compliance action and regulatory investigation
- non-staff costs, for example costs from data collection and storage by the regulator

Additional staff costs would need to be agreed by the Government as part of Ofgem's funding agreements. We would recover these from the industry levy.

3.7 Similar costs could be incurred by energy suppliers, to respond to, and comply with, increased data requests and engagement regarding compliance or enforcement cases.

### **Indirect costs**

3.8 If additional resources were not provided, enhanced enforcement or compliance may require resources to be funded or diverted from other areas. This could incur an indirect cost in the form of potential consumer detriment in other areas of the energy market.

## **Option 3: Guaranteed standards and automatic compensation**

### **Direct costs**

3.9 As the smart meter rollout has been underway for many years, we consider that energy suppliers have processes and necessary resources to deal with smart meter installations and operational issues. However, we consider that an energy supplier may incur additional costs to comply with these proposed standards.

3.10 To inform our assessment of the cost of these proposals, we will be asking suppliers to provide us with appropriate information which will allow us to assess costs.

3.11 We are seeking this cost related information through our RFI for each proposed Guaranteed Standard. Through this RFI, we also seek evidence from suppliers

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regarding whether they currently have established a compensation mechanism and if so, what total costs are, and whether those mechanisms could be extended to be used for compensation payments in relation to the proposed new Guaranteed Standards.

- 3.12 Our IA will describe monitoring measures. The need to monitor additional Guaranteed Standard performance data will be imposed upon Ofgem and Citizen Advice Bureau (CAB). However, at present our expectation is that these costs will be met by existing monitoring functions within the organisations and therefore do not propose to include an additional cost element in our calculations. Our IA will also identify when there will be an evaluation of the policy and how it will be evaluated.
- 3.13 We propose to retain the existing dispute resolution procedure used for existing Guaranteed Standards. This means that the Energy Ombudsman and other dispute resolution bodies will be able to examine any disputes between suppliers and relevant consumers related to these proposed Guaranteed Standards. We do not consider that the creation of the new Guaranteed Standards will increase or decrease the number of disputes brought to dispute resolution. We would anticipate that the automatic compensation system will reduce the number of customers who are in dispute with an energy supplier for issues with their smart meter journey. However, disputes may arise as to whether compensation should have been paid.
- 3.14 As we do not currently hold specific cost data on the implications of these proposals, we cannot at this stage provide a view on the implications of these proposals on energy suppliers financial positions.
- 3.15 We are aware that suppliers may contract with external third parties to facilitate parts of their smart meter rollout and smart meter operation functions. The introduction of these Guaranteed Standards may impact energy suppliers' existing contract arrangements with these third parties in various areas. For example, meter installation and service contracts may need to be renegotiated. In addition, some suppliers may contract billing and other operations to third parties who will need to make changes and alter charges. However, we expect these additional costs to be identified, as far as possible within the RFI.

### **Indirect costs**

- 3.16 We would like to understand in more detail what indirect costs may be associated with these proposals, and we welcome views on this.

## 4. Identifying the benefits of our proposals

In this chapter we identify, at a high level, the expected benefits of our proposed approaches and identify how we expect to obtain the necessary evidence to understand the extent of those benefits.

- 4.1 In the previous sections, and in our accompanying consultation document, we have detailed the consumer detriment arising from delayed or failed smart meter installation appointments, smart meter operational issues and smart meters not operating in smart mode.
- 4.2 It should be noted at this stage we have not attempted to calculate benefits based on a specific assessment of the value of consumer detriment experienced. We do not have complete data that would allow us to estimate the aggregate detriment suffered by consumers. We will issue a separate RFI shortly, that will help us better understand the current levels of industry performance against the standards we are proposing.

### Option 1: Business as Usual (the counterfactual)

#### Direct benefits

- 4.3 Currently we have no evidence on whether any suppliers offer compensation for the standards we have proposed in our policy consultation. The RFI will establish the current situation.

#### Indirect benefits

- 4.4 If there is some compensation provided there may be indirect benefits such as enhanced trust in that supplier. We count this as part of normal market operations and will not attempt to quantify or use this in our analysis.

### Option 2: Enhanced enforcement or wider compliance against smart meter related licence obligations

#### Direct benefits

- 4.5 We expect that an active targeted enforcement, or wider compliance approach, may increase performance of smart meter installations and reduce the number of non-operating smart meters, which would result in a decline in the incidents of consumer detriment.

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- 4.6 Realisation of these benefits would occur later than in the case of an automatic compensation scheme. Any enforcement case would be based upon analysis of supplier performance against the SLCs. Any enforcement case would take time to construct and prosecute against a supplier. There is no guarantee that the energy supplier will take remedial action whilst the case was ongoing. In addition, cases would have to be taken against individual suppliers and would likely have to be prioritised, therefore it could take many years to work through the market.
- 4.7 In our view, option 2 would not realise any net consumer benefits in the form of transfers from suppliers to consumers to compensate for poor service outcomes. However, as noted in section 4.5 it may help to reduce further detriment by driving supplier behaviour.

### **Indirect benefits**

- 4.8 It is possible that more visible and high-profile enforcement and compliance action against non-compliant firms, could have some form of impact on customers' willingness to engage with the retail energy market.
- 4.9 However, it is difficult to estimate the extent of this impact with any certainty. There is also a possibility that the presence of large-scale enforcement action could be interpreted by some consumers as an example of ineffective working of the retail market.

## **Option 3: Guaranteed standards and automatic compensation**

### **Direct Benefits**

- 4.10 According to [official government statistics](#) 66% of all meters in homes and small businesses across Great Britain (England, Scotland and Wales) have a smart or advanced meter at the end of December 2024, with the proportion of smart meters expected to increase. These Guaranteed Standards aim to ensure future-proofed regulations are implemented for current and future smart meter users.
- 4.11 It is our view that automatic compensation through these proposed Guaranteed Standards would accrue considerable benefits for consumers. Aligning suppliers' incentives with those of consumers to ensure that detriment is avoided before it occurs, is the most effective way of delivering benefits related to smart meters. Where the detriment is not avoided, the

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compensation will reduce the actual detriment suffered by the consumer, by the value of the compensation paid.

- 4.12 We consider that each of the proposed new standards addresses a separate source of detriment. Some of the direct benefits that will accrue to consumers, when compared with the BAU approach, will be the collective of the detriment episodes that are prevented as a result of implementing these measures. However, currently we do not hold data on the specifics of each of these smart meter proposals to outline what this may be at this stage.
- 4.13 We have limited evidence on the actual value of the detriment suffered. We are therefore proposing to use the value of compensation payments under the existing Guaranteed Standard scheme, which we propose to adopt under the new scheme, as a substitution for a monetary value of the detriment suffered by consumers. We would welcome assistance from respondents to the RFI to help us better understand the value of this detriment, potentially using existing redress schemes.
- 4.14 Unlike the proposals under option 2, an automatic compensation scheme could have an immediate impact in altering the incentives of suppliers to avoid such episodes of consumer detriment. Benefits would be enjoyed immediately from the adoption of the automatic compensation scheme.
- 4.15 We recognise that compensation payments will represent a transfer from suppliers to consumers, and not a gross economic benefit. Therefore, for the purpose of this assessment, we will consider these transfers as a net benefit for consumers.
- 4.16 A further direct benefit of these proposed GSOPs measures may be a potential for reduced burden on the Energy Ombudsman Service (EOS) and the Citizen Advice Bureau (CAB) if consumers are experiencing fewer problems related to their smart metering journey, and as a consequence, a reduction in fees to the EOS and CAB (and upon costs incurred by customers for the effort of contacting the EOS and/or CAB).

### **Indirect benefits**

- 4.17 It is our view that automatic compensation through these proposed Guaranteed Standards would incentivise suppliers to improve consumer experience of smart meters, with more consumers being able to realise the benefits of smart meters in a timely manner. This could increase consumer perception of smart meters and therefore provide a potential tangible benefit

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of consumers' willingness to proactively engage with smart meters and the potentially the wider energy market.

- 4.18 The provision of automatic compensation is likely to make this effect more pronounced as compared with Option 2. This will be apparent to consumers that they will receive compensation directly if they are inconvenienced because of a breach covered under these proposed Guaranteed Standards.
- 4.19 We also consider there may be an additional benefit of improved operating rates of smart meters. Energy suppliers' ability to see accurate usage data from consumers allows industry to better understand demand. In addition, fully operational smart meters play a crucial role in achieving the Government's Clean Power 2030 target, the Net Zero 2050 target, and Ofgem's objective for Market-Wide Half Hourly Settlement (MHHS).
- 4.20 We have not provided an estimate of these indirect benefits at present, however we may attempt to calculate these accordingly in the IA, if relevant and appropriate.



## **5. Next steps**

### **Chapter summary**

This chapter summarises the next steps for the development of our IA.

- 5.1 As detailed throughout this document, we are issuing a RFI to further develop our IA. This RFI will be based upon the proposals set out in the policy consultation and will be sent to relevant parties shortly.
- 5.2 Data received through this RFI will allow us to develop a more detailed understanding of the benefits and costs associated with the implementation of our proposals. This will enable us to assess the costs against the benefits of our proposals to decide on the implementations of all, or some, of our proposals.
- 5.3 Once we more fully understand the impact of our proposals, and the level of change required by suppliers to comply with them, we will also be able to determine the implementation period required after the regulations are made, should we decide to proceed.
- 5.4 Please send responses to the RFI to [smartmetering@ofgem.gov.uk](mailto:smartmetering@ofgem.gov.uk) to allow us to fully consider the financial impacts of these proposals.
- 5.5 We will also seek broader stakeholder feedback on the draft IA, which will be published alongside a statutory consultation if the proposals move forward.