

British Gas's request for changes to its meter inspection licence obligations

Consultation

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Overview:

Gas and electricity suppliers have a duty under their gas and electricity supply licences to inspect their customers' meters at least every two years unless Ofgem consents to other arrangements. British Gas has asked Ofgem to consent to a more targeted regime for meter inspections and a minimum inspection period of five years for all meters. British Gas considers that its new system for meter inspections would increase efficiencies of meter inspections and maintain the current level of customer protection afforded by the current two yearly meter inspection requirements.

This document seeks views from respondents on whether the changes proposed by British Gas would be in the interests of consumers, to inform Ofgem's decision on whether to consent to the new arrangements. It also seeks views from respondents on potential conditions that we could impose on British Gas to ensure that consumers are protected under the proposed new arrangements.

We are also proposing in this document to review the regulatory metering inspection framework more generally. The review would identify if any changes are needed to the existing rules to ensure consumers continue to be appropriately protected in the context of the mass rollout of smart meters and to ensure consistency with the principles of better regulation.

Context

The gas and electricity supply licences set out the obligations that apply to suppliers operating in the gas and electricity markets, including certain obligations in relation to two yearly meter inspections. The scope of the two yearly meter inspections primarily focuses on safety but also includes theft detection and meter reading frequency.

These obligations were reviewed as part of the supply licence review in 2006 during which we considered that the current obligations may be overly prescriptive. However, on the advice of the Health and Safety Executive, we did not remove the obligations at that time but instead introduced the ability for Ofgem to consent to alternative arrangements for suppliers. This was intended to enable us (with advice from the Health and Safety Executive) to consider individual requests based on evidence submitted on a case-by-case basis.

We have received a request from British Gas to consent to alternative gas and electricity metering inspection arrangements and have sought advice from the Health and Safety Executive. They have considered British Gas's risk assessment and have confirmed that they do not object to Ofgem consenting to alternative arrangements, subject to British Gas complying with certain conditions.

The government has decided to rollout smart meters, which will require over 50 million traditional meters to be replaced. Smart meters will reduce the need for suppliers to visit consumer premises as the meters will be capable of being read remotely. The Department of Energy and Climate Change (DECC) business case has identified £2.7bn of benefits associated with avoided meter reads / inspections.

The regulatory framework and market for the provision of metering services will be subject to significant changes to accommodate the rollout of smart meters. Ofgem has conducted a Review of Metering Arrangements (ROMA) to support the transition from traditional to smart meters to protect consumers and provide for an orderly and efficient transition.

Associated documents

- Ofgem request for information, November 2010
<http://www.ofgem.gov.uk/MARKETS/SM/METERING/CRF/Documents1/Final%20open%20letter%20two%20yearly%20meter%20inspections.pdf>

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Executive Summary

Introduction

Gas and electricity suppliers have a duty under their supply licences to inspect their customers' meters at least every two years unless Ofgem consents to other arrangements. The two-year meter inspections are primarily designed to ensure safety of the meter but also have advantages for theft detection and meter reading frequency.

These obligations were reviewed as part of the supply licence review in 2006 during which we considered that the current obligations may be overly prescriptive. However, on the advice of the Health and Safety Executive, we did not remove the obligations at that time but instead introduced the ability for Ofgem to consent to alternative arrangements for suppliers on a case by case basis.

British Gas has asked us to consent to a more risk-based targeted regime for meter inspections, with a backstop minimum inspection period of five years (instead of the current two-year period). British Gas has proposed to maintain a two-year inspection frequency for vulnerable customers. British Gas considers that this new system for meter inspections would increase efficiencies of meter inspections, remove a greater level of safety risk and maintain the current level of customer protection afforded by the two yearly meter inspection requirements.

Our approach

When making a decision, we must have regard to our general duties and principal objective to protect consumers¹. We have identified a number of issues we consider are relevant to our assessment of whether the arrangements that British Gas has proposed are in the interests of consumers.

We consider these issues to be: health and safety, gas and electricity theft detection, accuracy of customer billing, impacts on competition between suppliers and impacts on networks. We have also considered whether any new arrangements should extend to advanced meters that British Gas is installing in advance of the mandated rollout of smart meters to domestic and smaller non-domestic customers.

We have considered the potential impact of the proposed change to the inspection regime in the light of our own analysis and evidence provided by British Gas. We have also considered safety advice provided by the Health and Safety Executive, who do not object to the alternative arrangements subject to British Gas complying with certain conditions.

¹ As set out in section 4AA of the Gas Act 1986 and section 3A of the Electricity Act 1989

Our analysis has identified potential risks in these areas and measures that we could take to ensure that customers continue to be protected. If we decided to consent to the proposal, we could impose conditions that British Gas would be required to comply with. We have set out for consultation our view on what these conditions should be. These include:

- A requirement to inspect meters at least every five years.
- A requirement to inspect vulnerable customers' meters every two years.
- A requirement to take all reasonable steps to obtain a valid meter reading at least every two years.
- A requirement to meet minimum levels of gas and electricity theft detection.
- A requirement to maintain the two year inspection cycle for meters that British Gas acquire through churn, prior to enrolling them into the five year cycle.
- A requirement to continue to inspect meters at each available opportunity.
- A requirement to operate a risk-based approach to safety inspection.

We seek the views of respondents on whether we have identified the appropriate factors to consider when making our decision, the potential impact on customers which could result from a decision by Ofgem to grant consent, whether the conditions we have proposed are appropriate and the extent to which any adverse impact on consumers would be mitigated by such conditions.

Next Steps

We will take responses to this consultation into account before making a decision on British Gas's request for consent. We currently expect to issue our decision in the summer.

In addition, we consider that there could be advantages in undertaking a wider review, to ensure that we continue to have in place an effective and proportionate regulatory framework for the inspection of meters. This is particularly important in the light of the advance of smart metering, which is expected to reduce the number of customer visits undertaken by suppliers as it will enable customers' meters to be read remotely.

The aim of the wider review would be to identify if any changes are needed to the rules that apply to all suppliers to protect the interests of consumers in advance of and during the mass rollout of smart meters and to ensure consistency with the principles of better regulation.

1. Introduction

Chapter Summary

This chapter sets out the regulatory framework in relation to meter inspections, summarises the British Gas proposal for alternative arrangements and discusses relevant developments to date.

Purpose of this document

- 1.1. Under the supply licence standard conditions, there is an obligation on gas suppliers² and electricity suppliers³ to inspect their customers' meters every two years unless the Authority otherwise consents.
- 1.2. British Gas (BG) has asked Ofgem to consent to alternative meter inspection arrangements and proposed that the minimum requirements for the frequency of meter inspections be extended from two to five years.
- 1.3. This document seeks views on whether we should consent to alternative arrangements and, if so, what form our consent should take to ensure consumers' interests continue to be protected. It sets out and seeks views on our analysis of the issues we believe to be relevant to making a decision, and on the detail of how such a consent might be framed.
- 1.4. This document also proposes that we review the metering inspection rules more generally. The review would identify if consumers can be better served by alternative rules for meter inspection as over time smart meters become the norm for domestic customers.

Current regulatory framework

Meter inspection licence obligations

- 1.5. As part of the gas metering inspection the supplier is required to inspect the meter and associated installation for evidence of tampering or theft, and look for evidence of deterioration, which might affect its safety or proper functioning. The supplier is also required to take a meter reading whilst inspecting the meter.
- 1.6. The scope of the electricity metering inspection requires the supplier to take a meter reading and carry out a visual inspection of any metering equipment to assess

² Standard Licence Condition 12.8 Inspection of Gas Meters

³ Standard Licence Condition 12.6 Inspection of Electricity Meters

whether there has been damage to the metering equipment or to any electrical plant or electric line. The inspection checks for any interference that may prevent the meter from registering the quantity of electricity supplied; or deterioration that may affect its safety or proper functioning.

Consent for alternative arrangements

1.7. As noted above, supply licence obligations require two yearly meter inspections *unless Ofgem otherwise consents*. This flexibility was introduced into the framework in 2006, as part of the Supply Licence Review (SLR). Ofgem considered at that time that the inspection frequency may be too prescriptive and could be modified to give suppliers greater control over the management of the safety of meter installations and effective measures to deal with theft.

1.8. The SLR review was subject to a wide consultation, which also considered the views of the Health and Safety Executive (HSE). The HSE was not against a change to the two yearly must inspect obligation as such, but considered that any changes should be risk and evidence based and should not result in any reduction in existing levels of safety. HSE considered that the aim should be at least to maintain current safety standards and, preferably, to improve them.

1.9. It is in that context that we introduced the ability of the Authority to consent to alternative arrangements on a case by case basis. We also set out that in considering any requests for consent, amongst other things we would seek the HSE's views on the evidence provided to us and implications upon safety.


1.10. The request from BG is the first time we have received a request from a supplier under this licence condition.

Outline of the British Gas proposal

1.11. BG first submitted its request that Ofgem consent to an alternative metering inspection arrangements in 2009. BG considers that the existing obligation fails to provide value for money for customers and that it is an obstacle to suppliers and customers capturing the benefits⁴ of smart metering.

1.12. BG provided some analysis on the safety benefits it has identified under its proposed targeted meter inspection approach. It requested that Ofgem consent to a change to BG's meter inspection obligation from two to five years. BG proposed that the consent should apply until 2015, with a review prior to its expiry. BG proposed to support the alternative arrangements with a series of undertakings:

⁴ The Department of Energy and Climate Change (DECC) has attributed a benefit of £2.7bn to avoided meter reading in its smart meter impact assessment



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- To continue to detect theft broadly to the same levels set out in the risk assessment.
- To take all reasonable steps to ensure that valid meter readings are obtained and used for all customers at least once every 2 years.
- To continue to inspect meters at least once every 2 years for those customers on the Priority Services Register⁵.

1.13. BG considered its proposal would benefit consumers by improving safety; that more targeted inspections would help reduce gas theft; and that it would reduce costs and inconvenience to customers. In addition, BG set out what it considered to be wider industry benefits, including that its proposal was a stepping stone towards wider safety reforms for smart metering; that it would result in a reduction in energy losses through the expected theft reductions; and that it would prompt other suppliers to make the their own cases to Ofgem, which BG considered would mean more of the expected benefits flowing through to consumers.

1.14. Our assessment in chapter 2 discusses BG's proposal in more detail, including the analysis they have submitted in support of their request.

Developments to date

Ofgem's initial consultation

1.15. Following BG's application in 2009, Ofgem issued an information request⁶ to understand if the proposal would have particular implications on networks.

1.16. The responses from the consultation were mixed; however, the majority suggested that they would be supportive of a change to the two-year inspection criteria if safety was not compromised. The responses generally considered that it was important that the risks to consumers were not increased and that any changes did not result in a transfer of costs between industry parties. A summary of the responses is set out in annex 3. Where appropriate, we have taken these responses into account in our analysis in this document.

Structure of this document

1.17. Chapter 2 sets out our analysis of BG's proposal from the perspective of safety (informed by the advice of the HSE), theft detection, billing accuracy, competition

⁵ Gas and electricity supply licensees have a duty to establish a Priority Services Register. The Priority Services Register provides additional protection for pensioners, disabled or chronically sick customers and entitles them to additional services free of charge from their supplier.
⁶<http://www.ofgem.gov.uk/Markets/sm/metering/crf/Documents1/Final%20open%20letter%20two%20yearly%20meter%20inspections.pdf>

impacts, networks implications and scope of the proposal (ie to what extent it should apply to the advanced meters that BG is increasingly installing). We consider these to be the relevant factors to assess, when considering whether the arrangements that BG has proposed are in the interests of consumers.

1.18. Chapter 3 sets out Ofgem's initial views on the detailed form and content of a possible consent to an alternative inspection regime, if granted. In particular, it sets out a number of conditions that could form part of any consent.

1.19. Chapter 4 sets out the next steps, including our proposal to undertake a more general review of the metering inspection framework, to identify whether consumers can be better served by alternative rules for meter inspection as over time smart meters become the norm for domestic customers. Finally, we set out the linkages with relevant legislation that we consider will be a factor in considering BG's proposal in the round.

2. Our assessment

Chapter Summary

In this chapter, we discuss the issues that we think are relevant in assessing whether it is in the interests of consumers to allow BG to be subject to different meter inspection obligations. We discuss the issues we have identified in our analysis, taking into account relevant information or analysis that has been provided to us. We have also identified areas where the imposition of conditions might be appropriate.

Question 1: Do you consider that the factors that we have considered are relevant and provide a robust framework for assessing the proposal?

Question 2: Are there any other relevant factors that we would need to consider, if we were to extend the consent to include advanced meters?

Question 3: Do you agree with our assessment of BG's proposal and whether the proposal provides a sufficient level of protection for consumers?

Question 4: Do you consider that we have identified all of the relevant factors for assessing the potential implications for competition?

2.1. When making decisions such as granting consent under a licence condition, we must have regard to our statutory duties and principal objective to protect the interests of existing and future customers.

2.2. We have not conducted a formal impact assessment at this stage because our analysis has suggested that a) if we were to grant consent to BG it would not be considered "important" within the meaning of section 5A of the Utilities Act 2000 and b) any changes are unlikely to have a "significant" impact to the Authority, industry or general public.

2.3. We have identified a number of issues that we consider are relevant to our assessment of whether BG's proposal to change meter inspections from two to five years is in the interests of consumers:

- health and safety,
- theft detection,
- billing accuracy,
- impacts upon competition,
- implications for networks, and
- scope of any consent.

2.4. We have set out in the sections below why we consider each of these is a relevant consideration and any issues that our analysis has identified. We have taken into account other information or analysis that has been provided to us (where

appropriate). We have also identified areas where it could be appropriate to impose conditions.

Relevant issues

Health and safety

2.5. Safety is a critical consideration and we are aware that if BG adopted its proposed alternative inspection frequency (from two to five years), then the degree and effectiveness of protection for consumers in respect of safety risks might change. A key component of the two yearly must inspect obligation includes a visual inspection of the metering installation and associated equipment for signs of deterioration and tampering / theft. Reducing the frequency of metering inspections could increase the risk of damage and/or theft not being identified by suppliers in a timely way and hence an increased risk to safety.

2.6. BG has undertaken its own analysis on safety. BG has concluded from its trials and risk assessment⁷ that theft generates a serious hazard. BG considers that its more targeted, risk-based approach to theft detection has significantly improved theft detection levels, and consequently is more effective at removing safety risk than the two yearly inspection obligation.

2.7. We also sought advice from the HSE as they have responsibility for safety related issues. The HSE's advice to the Authority (attached as Annex 2) includes the following key elements:

- The HSE's opinion is that the societal safety risk from a meter would not be materially affected by the proposed changes if, as the HSE has been led to expect, BG follows a framework for future inspections that is: risk based, clear on the timing and reason for inspections, includes clear protocols for accepting existing meters on transfer of supplier and appropriate management records and systems for informing third parties regarding defects;
- A recommendation that Ofgem consult further with affected parties on the proposed changes to enable industry participants to fully understand the implications of the change;
- The HSE notes that the meter inspection regime under the licences is one element of a legal framework that energy suppliers must comply with and any decision the Authority makes in relation to the request from the Authority's decision does not affect the suppliers' wider Health and Safety obligations.

⁷ BG's risk assessment can be found at the following link
<http://www.ofgem.gov.uk/MARKETS/SM/METERING/CRF/Pages/crf.aspx>

Discussion

2.8. Other things being equal, a regime which has more frequent inspections is likely to be safer. Hence, it is conceivable that relaxing and or removing the two yearly inspection requirement completely could increase the level of risk to consumers. BG's proposed mitigation is for less frequent routine inspections, but for more targeted inspections based on analysis of data and assessment of risk.

2.9. The advice from the HSE is significant in that it supports the view that less frequent routine inspections, complemented by risk-based targeted inspections, can maintain or reduce safety risks at a societal level. HSE has provided its advice having scrutinised the evidence provided by BG, which included its approach to risk-based targeting. It is important for consumers that the processes for effective targeting continue to be applied, recognising that they will constitute a costly activity for BG. This therefore appears to be an appropriate area for the imposition of conditions – to ensure that the assumptions made about how safety risks would be mitigated are applied in practice. This is discussed further in chapter 3.

2.10. We recognise that the level of risk to consumers will vary between consumers; this is because the factors that give rise to risk are not consistent across all the metering installations, such as meter age, type, location and materials associated with the other components of the installation. A risk based approach should consider such factors when making an assessment of risk.

2.11. We are also mindful that regardless of the inspection frequency of the must inspect obligation, suppliers will need to satisfy themselves that they are compliant with wider health and safety legislation. This is further protection for consumers against the risk that BG subsequently scales down its targeted inspection activity if consent is granted.

Theft detection

2.12. Theft of gas and electricity increases the costs of energy to consumers. Interfering with metering equipment also has safety implications. A reduction in the frequency of meter inspections could impact theft detection rates; evidence suggests that a significant proportion (up to around 26% for electricity and 19% for gas) of theft cases is detected via the meter inspection.

Discussion

2.13. Given the number of thefts detected by two yearly inspection visits, without other requirements we would expect the removal of this condition could result in a deterioration in theft detection. However, we note that BG's request is based around a more targeted inspection regime, which on BG's analysis could be expected to result in a higher theft detection rate.

2.14. We note that BG makes an intrinsic link between the levels of theft detected and the levels of safety risk removed for their meter population. If we decided to

consent to the proposed five yearly inspection arrangements, we would need to take measures to ensure that BG's risk based approach would continue to detect theft, to remove a greater level of safety risk than the existing regime.

2.15. Under the current market arrangements, BG has a strong commercial incentive to reduce gas theft because of its market share and how the costs of stolen gas are recovered from suppliers in settlement. We note that gas theft figures collected over the past few years are consistent with these incentives, and show that, in general, the other five big suppliers⁸ gas theft detection rates are significantly below BG's.

2.16. We consider that the potential risk to consumers of lower theft detection could be mitigated within any consent by including a condition to maintain a minimum specified level of gas and electricity theft detection. This is discussed further in Chapter 3.

2.17. It is worth noting that Ofgem is proposing separately to introduce stronger incentives on gas suppliers to detect theft, as we consider that the existing framework does not adequately encourage suppliers to be proactive in detecting and preventing gas theft. We have proposed that BG is not included in this incentive scheme for the first few years because its arrangement for theft detection may be more developed than others. Notwithstanding this, BG will be required to participate in our other theft initiatives including the new Theft Code of Practice and a Theft Risk Assessment Service to generate theft leads.

2.18. Were BG to be included in the gas incentive arrangements, we would consider any potential implications on any consent we may decide to grant, to ensure it would not distort the operation of the theft incentive scheme.

Billing accuracy

2.19. For consumers' bills to be accurate, it is essential that meter reads are processed frequently and in a timely way. Any change to industry processes or obligations that may impact upon the frequency of meter reads being obtained has the potential to increase the risk of inaccurate bills.

2.20. It is conceivable that if BG adopts an alternative meter inspection regime, there might be an overall reduction in the number of meter reads obtained by BG. This is because the obligation to inspect meters includes an obligation to obtain a meter read. This could result in more estimated bills (if a customer read is not provided)⁹, which could mean a reduction in the quality of data used for billing. This could lead to customer dissatisfaction and could exacerbate customer problems with debt.

⁸ EDF, E.ON, Npower, Scottish Power, Scottish & Southern

⁹ SLC 21B now requires that meter readings provided by the customer be reflected in bills.

Discussion

2.21. The existing regulatory framework requires suppliers to obtain a meter read at least once every two years. We are aware that BG reads meters more frequently and that it will continue to comply with the Energy Retail Association billing code¹⁰, which is a set of commitments to achieve improved performance in the process of billing domestic¹¹ energy.

2.22. We note that BG (and other suppliers) already have a degree of discretion over when and how frequently they obtain meter reads, and this would not be affected by our decision on this proposal. Based upon information provided by BG, we do not expect the overall level of meter reads to deteriorate as we expect that other meter read channels to be utilised more frequently.

2.23. However, consenting to move to must-read inspections every five years would affect the data available for billing for some customers. Specifically, those customers who (a) do not submit their own reads, (b) have not been visited by, or have not provided access to, a meter reader, and (c) have not been targeted for a meter inspection based on a risk-assessment. Customers in this category would be more likely to get an inaccurate bill if consent were granted.

2.24. We think this is an area where the imposition of conditions might be appropriate. These conditions could relate to the overall levels of meter reads, and the steps that BG might reasonably be expected to take to obtain a meter reading at least every two years. In addition, conditions to provide additional protections for vulnerable customers might be appropriate because billing errors might be expected to have a more significant impact. We discuss this issue further in chapter 3 of this document.

Impacts on competition

2.25. It is in the interests of consumers for suppliers to compete on costs, and invest time and effort in finding ways of reducing costs. While this might increase profits in the short-term, there are likely to be benefits for consumers in the longer term.

2.26. BG is seeking a consent because it wants to reduce its costs relative to other suppliers. If over time these cost savings flow through to prices (for example, as other suppliers seek to make similar cost savings), then customers will benefit. We do not want regulation to get in the way of the same or better service being provided at lower cost. However, it is important to consider whether there are other competition impacts that might be a cause for concern.

¹⁰ <http://www.energy-uk.org.uk/publication/finish/43/413.html>

¹¹ The code does not include non domestic customers

Discussion

2.27. There are two potential competition issues to consider. First, the extent to which the efficiency savings being sought by BG are accessible to other suppliers – which in turn is likely to affect the extent to which any cost savings are passed on to consumers through competitive pressure. Second, the extent to which granting consent might result in consequent costs or risks to other suppliers who seek to compete for BG's customers because of the operation of different meter inspection regimes.

Access to cost savings

2.28. We have considered whether potential cost savings resulting from less frequent meter readings is something that other suppliers (with similar levels of efficiency) could also benefit from. On the one hand, we note that it is open to any supply licensee to seek consent in the manner in which BG has done. Also, any such application will be considered by Ofgem using the same objective, evidence-based framework.

2.29. On the other hand, we note that the process of seeking consent is not without cost for a supplier. For example, costs may be incurred in seeking appropriate evidence in support of any request. There may be differences between suppliers' abilities or appetites to incur such costs. To this extent larger suppliers may have advantages with their economies of scale and ability to obtain consent compared to smaller suppliers.

2.30. We invite specific views from interested parties on the potential impact on access to cost savings.

Transfer of costs between suppliers

2.31. The implications of maintaining a two-year inspection frequency are different for gas and electricity.

2.32. In electricity, when a customer changes supplier, the two-year meter inspection period is re-set and therefore the incoming supplier will not have to carry out a meter inspection for a two-year period. In gas, the inspection period is not reset on change of supplier and therefore an inspection will be due two years after the last inspection took place. The incoming supplier is however always given a four-month notice period so the earliest an inspection can be required is four months following the successful transfer of a customer under the change of supplier process.

2.33. An increase in the minimum inspection period for BG may result in a meter inspection being due for more gas customers transferring to other suppliers, from BG. If this issue was to materially increase the costs to other gas suppliers winning customers from BG, this could distort competition.

2.34. Our initial analysis suggests that the transfer of costs between suppliers resulting from this situation is unlikely to be material for two main reasons:

1. Only a proportion of customers will transfer from BG with this 'liability' for the new supplier, with the proportion being determined by how BG chooses to sequence its inspections as part of its five-year inspection cycle, and by how frequently BG continues to visit each property for the purposes of reading the meter.
2. We consider that the impact is primarily to bring forward a cost for the incoming supplier, as opposed to creating a new cost as the meter will need to be inspected at some point by the incoming supplier.

2.35. Any information regarding a potential increase in costs would be helpful to inform our decision in this area. We are keen to understand the potential impacts that a change in the inspection regime will have on transfer of costs between suppliers.

Implications for networks

2.36. Gas Distribution Networks (GDNs) and electricity Distribution Network Operators (DNOs) place some reliance on the two yearly meter inspections. In particular, DNOs rely on the inspections to mitigate obligations under the Electricity Safety, Quality and Continuity Regulations (ESQCR); and GDNs under the Gas Safety (Management) Regulations 1996 (GS(M)R). A reduction in the frequency of meter inspections could therefore have impacts on networks businesses.

2.37. Following BG's application in 2009, Ofgem issued an information request to understand the extent to which the networks place a reliance on the two yearly metering inspections, and whether removing or reducing the frequency of the inspections would result in a transfer of costs from suppliers to networks. A summary of the responses to the information request can be found in annex 3.

2.38. GDNs did not express any concern regarding a transfer of cost or impact on their regulatory obligations under the GS(M)R. One of the GDN's was of the view that reducing the frequency of inspections would increase the safety risk to consumers.

2.39. One of the Independent Gas Transporters (iGTs) argued that BG's proposal would result in an increase in costs for independent gas and electricity network operators through increased call outs under their emergency metering service provisions to deal with public reported meter faults.

Discussion

2.40. We note that the GDNs do not consider that this will result in a transfer of costs.

2.41. We do not agree that granting consent will result in an increased level of emergency metering call outs, as we understand that meter inspections result in a low level of metering issue being identified, and do not often trigger emergency meter works.

2.42. Gas and electricity suppliers have an obligation to ensure that meters remain fit for purpose and are required to satisfy themselves that they are meeting the wider safety responsibilities and requirements set out in Health and Safety Legislation.

2.43. Therefore we do not consider that BG's proposal would be expected to have a substantive negative impact upon the GDNs and/or DNOs.

Scope of BG's proposal

2.44. BG has requested that the alternative meter inspection regime should apply to all of its meters, including smart meters¹² that are being rolled out to their customers in increasing numbers.

Discussion

2.45. A key source of evidence for Ofgem in considering BG's request is the advice received from the HSE based on its assessment of the evidence provided by BG. The evidence base considered by the HSE did not, we understand, include many smart meters. This is understandable given that the data was for 2006 to 2009, but it does mean that the data considered by the HSE is not reflective of the meter stock to which the alternative meter inspection regime would apply.

2.46. A larger proportion of smart meters in the population of meters to which the new inspection arrangement apply could have relevance to a number of the issues under consideration. For example, other things being equal it should help reduce the materiality of any concerns around degradation in billing accuracy and theft detection.

2.47. However, the impact on safety risks appears less clear cut based purely on reasoning alone. It is conceivable that the risks generated by a smart meter will be different to that of a traditional meter. While this discrepancy might not be material, we would like to understand the issue further. To this end, we are seeking further information from both HSE and BG. We would also welcome views from other stakeholders.

Summary

¹² Also defined as advanced domestic meters (ADMs)

2.48. We recognise that BG's proposal has potential impacts on the factors discussed above. However, where required, we consider it would be possible to include appropriate conditions on BG within any consent we may grant. Such conditions would mitigate potential risks and seek to ensure the arrangements continue to be in interest of consumers.

2.49. We welcome your view on whether we have framed our analysis correctly and identified the correct factors for consideration. We welcome any further evidence to further support our analysis, and test whether we have identified an appropriate set of mitigating factors to address the concerns that we have raised.

2.50. The next chapter considers an alternative metering inspection framework and a series of conditions that could apply if we decided to grant consent to BG.

3. Alternative metering inspection framework

Chapter Summary

This chapter discusses the detail of how the consent might be structured, including in duration, if it were to be granted. In particular, it sets out the types of condition we are considering for inclusion. The conditions would, if included, have the same standing as licence obligations.

Question 1: For each of the conditions we have proposed, do you consider that they are appropriate and provide a sufficient level of protection for the consumer?

Question 2: Is it appropriate to time limit the consent and include a sunset clause condition?

Question 3: What do you consider is an appropriate definition of vulnerable customers for the purpose of the conditions?

Question 4: Do you consider that linking the levels of theft detected to the conditions is appropriate, and if so, is it appropriate to set a tolerance to the level of theft detected?

Question 5: How do you consider that any risk management systems and processes should be monitored?

Question 6: We welcome your thoughts on whether there is any other specific data that we should be requesting as a part of the annual reporting.

Question 7: Do you agree with our proposal to review more generally the regulatory framework for the smart meter inspections?

Alternative regime

3.1. As discussed in chapter 2, we have identified a number of issues that may impact upon customers, in the absence of specific conditions. Therefore, to protect customers, if we were to grant consent to extend meter inspection frequency from two to five years as BG has proposed, we consider it would be appropriate to include certain conditions, to ensure consumers continue to be protected.

3.2. This chapter sets out and seeks views on a number of proposed conditions that could be included in an alternative meter inspection regime in conjunction with a sunset clause.

Proposed conditions of potential consent

3.3. Taking into account the issues discussed in chapter 2, we have set out below a series of seven conditions (a to g) that we consider may be appropriate to include within a consent, if we granted it. We further explain the reasoning behind each condition below.

- a) To take all reasonable steps (including obtaining a warrant for access, where reasonable) to inspect meters every five years.
- b) Notwithstanding (a) to take all reasonable steps (including obtaining a warrant for access, where reasonable) to inspect the meters of vulnerable customers every two years.
- c) To take all reasonable steps (short of seeking a warrant for access) to obtain a valid meter reading every two years, either by visiting the premise or from the consumer.
- d) To meet minimum levels of theft detection (set at a level commensurate with the continuation of current performance levels).
- e) To maintain the two year inspection cycle for meters that BG acquire through churn, prior to enrolling them into the five year cycle.
- f) To continue to inspect meters at each available opportunity.
- g) To maintain documentary records of the systems and processes used, and activities undertaken, to give effect to its 'risk-based' approach to safety inspection.

3.4. A breach of the conditions of any consent could result in enforcement action. In the event that BG wished to revert back to the two-year inspection frequency, they would be required to notify Ofgem and request that the conditions be revoked.

Discussion of conditions

Condition a) To take all reasonable steps (including obtaining a warrant for access, where reasonable) to inspect meters every five years.

3.5. BG's request for consent was based on a more targeted approach to meter inspections, with a backstop requirement for a five yearly meter inspection. The five yearly requirement was an important part of BG's evidence base presented to the HSE. We therefore consider this to be an important condition in any consent. This is essentially the foundation of the alternative arrangements being considered.

Condition b) Notwithstanding (a) to take all reasonable steps (including obtaining a warrant for access, where reasonable) to inspect the meters of vulnerable customers every two years.

3.6. BG also proposed retaining a two yearly meter inspection for vulnerable customers. This is because vulnerable customers may be less likely to provide their own meter reads. We consider this condition is important to ensure that vulnerable customers are protected.

3.7. We are considering which definition of vulnerable customers is the most appropriate for the purpose of any possible consent, either that defined by the Priority Services Register (PSR) or by the Energy Retail Association (ERA).

3.8. The PSR defines vulnerable customers as Domestic Customers who are of pensionable age, disabled or chronically sick and who have asked for their name to be added to the Register (or someone has asked for their name to be added). We are concerned that this definition may be too narrow, since there will inevitably be pension age, disabled or chronically sick Domestic Customers who are not on the list. We note that there is no obligation to list other residents of Domestic Premises who are of pensionable age, disabled or chronically sick customers.

3.9. The ERA's definition of vulnerable customer (set out in the Safety Net¹³) is broader than the PSR. It provides that: "A customer is vulnerable if for reasons of age, health, disability or severe financial insecurity, they are unable to safeguard their personal welfare or the personal welfare of other members of the household". It includes (in addition to those of pension age, disabled or chronically sick) the young (although whether a household is vulnerable by virtue of the presence of children will vary from case to case). The definition covers both customers and other residents.

Condition c) - To take all reasonable steps (short of seeking a warrant for access) to obtain a valid meter reading every two years, either by visiting the premise or from the consumer.

3.10. As discussed in chapter 2, meter inspections are an opportunity for suppliers to obtain meter reads. There is therefore a risk that a change in the backstop meter inspection obligation from two to five years could result in less accurate data being used for billing. To mitigate this risk we consider that it would be appropriate to require a two yearly meter read.

3.11. We note however that there are other regulatory and commercial drivers on suppliers to obtain meter reads, to enable accurate billing and improve customer satisfaction. We expect therefore that these incentives should drive the frequency of meter reads rather than the inspection routine. We therefore expect that in reality a

¹³ The ERA Safety Net requires suppliers to provide enhanced measures to vulnerable customer.

change in the inspection regime will have little effect on the number of meter reads processed by the supplier.

3.12. We note that BG are proposing to process a customer's meter read as a valid read for the purpose of any consent and adopt the definitions of a meter read as defined in the network code¹⁴.

Condition d) - To meet minimum levels of theft detection (set at a level commensurate with the continuation of current performance levels).

3.13. One of the mitigating risk factors within BG's risk assessment is the identification of theft. Therefore, given the linkage between theft and risk removed it is important that an appropriate level of theft is removed each year for the assumptions of the risk assessment to remain valid. In addition, energy theft has an adverse effect on customers as it increases the bills of other customers. It is important therefore that any change in inspection regime does not decrease the levels of theft detection by BG.

3.14. To protect customers, we consider it would be appropriate to require a minimum level of theft to be detected each year and reported. In recognition of the fact that there can be variations in theft detection we would expect to include reasonable tolerances on the target level of theft detection. One way of achieving this would be to require BG to meet at least 95 per cent of the target level.

Condition e) To maintain the two year inspection cycle for meters that BG acquire through churn, prior to enrolling them into the five year cycle.

3.15. The evidence case provided by BG relies on the theft detection, asset management and data mining that BG has in place. BG has suggested that these processes remove a greater level of safety risk than the existing metering inspection obligations. BG argues that a key factor to their approach is its knowledge base and understanding of the assets condition.

3.16. When BG acquires a meter on churn, its information on the meter and hence its understanding of the assets condition, will be less detailed. We consider that in order to protect customers with such meters, it would be appropriate for BG to undertake an inspection of meters acquired on churn prior to them being included within any revised metering inspection regime. This approach should ensure that all meters enrolled into the five-year inspection frequency will have been subject to the same governance, processes and controls.

¹⁴ Uniform Network Code – Transportation Principal Document Section M – Supply Point Metering http://www.gasgovernance.co.uk/sites/default/files/TPD%20Section%20M%20-%20Supply%20Point%20Metering_0.pdf

Condition f) To continue to inspect meters at each available opportunity.

3.17. As an energy supplier, BG will continue to have qualified people attending customers' premises to carry out other activities (eg such as boiler servicing and repairs). We understand that the incremental cost of inspecting a meter is low, if a qualified person is already on site undertaking work. We would therefore expect BG to make use of such opportunities as they arise, and to incur any small additional costs where appropriate.

3.18. We therefore consider that it would be prudent to require BG to inspect meters at each available opportunity. For the avoidance of doubt, we would only expect BG to inspect meters at each available opportunity, ie when the engineer on site has the appropriate competence.

Condition g) To maintain documentary records of the systems and processes used, and activities undertaken, to give effect to its 'risk-based' approach to safety inspection.

3.19. The HSE's view that societal risk is not likely to be affected by BG's proposal is based on the understanding that BG's approach is: risk based, clear on the timing and reason for inspections, includes clear protocols for accepting existing meters on transfer of supplier and appropriate management records and systems for informing third parties regarding defects.

3.20. We have considered a number of regulatory options for satisfying both Ofgem and the HSE that these assumptions remain valid for the duration of any consent. One approach would be for us to work with BG to develop appropriate systems and processes, and for the detail of these to be included in any consent. This would require a significant role for Ofgem, with assistance from the HSE, in approving the systems and processes used by BG. Such a route would be a departure from the more principles based regulation favoured by the HSE and may not be in line with better regulation principles.

3.21. We have also considered whether we should require BG to obtain an independent audit of its systems and processes. Again, this could constitute an unnecessarily heavy regulatory burden.

3.22. On balance, and having discussed this with the HSE, we think that a requirement on BG to document the systems and processes it has in place would result in BG continuing to have responsibility for meeting its safety obligations whilst facilitating scrutiny of those processes as appropriate by Ofgem and / or the HSE. Were we to grant a consent, we would continue to work with the HSE under our Memorandum of Understanding to ensure that the inclusion of this condition is consistent with the expectations of how the proposed alternative arrangements would operate.

Monitoring, reporting and enforcement

3.23. The risk assessment makes a link between theft detected and risk removed therefore we consider that it is appropriate for BG to report on the levels of theft detected each year and how they are applying a risk based approach to metering inspections.

3.24. We consider that the conditions of the consent would be enforceable in the same way as a breach of the licence condition and that GEMA would be able to revoke the consent if the conditions were breached. We welcome your views on whether you consider that the undertakings are robust and enforceable in their current form.

Sunset Clause

3.25. If we were to grant consent to BG, we consider it good practice to set a review point upfront to establish whether the proposal has delivered its intended benefits to customers, and continues to be appropriate within the context of the wider regulatory framework. It appears to be prudent to test the impact of the consent on the factors identified in chapter 2 and to review whether any changes to the conditions attached to the consent are required. We therefore consider that it would be appropriate to grant any consent for a defined period.

3.26. The duration of any consent would need to be sufficiently long to provide meaningful data, whilst also providing safeguards for customers. For BG to measure the effectiveness of the scheme, certain meters must be inspected every five years. We therefore consider that it might be appropriate to time limit any consent to three years as this would provide sufficient time for BG to consider how their metering assets (those approaching the two year inspections at the outset of any consent period) perform over a five year cycle without an inspection.

3.27. Another key consideration when setting the sunset clause period is the need to review the regulatory framework in advance of the mass roll out of smart meters in 2014. In light of this, we are proposing to undertake a more general review of the metering inspection obligations, which we discuss further in chapter 4.

4. Next steps

Proposal to undertake wider review

4.1. We consider that it is important to establish an effective and proportionate regulatory framework for the inspection of meters. This is important for existing meters and in the transition to smart meters. In this context, we recognise the importance of reform and the need to remove regulatory requirements where it is in the interest of consumer, safe and economical to do so.

4.2. The Department of Energy and Climate Change (DECC) cost benefit case for Smart Metering assumes that the rollout of smart meters will help facilitate a change in the number of visits to consumer premises for meter reads. There is £2.7bn of benefits identified in DECC's business case associated with avoided meter reads / inspections.

4.3. We therefore consider that it is in consumers' interest to undertake a more general review of the meter safety inspections obligations, as part of the wider process to ensure that regulation continues to be fit-for-purpose in the context of smart metering. We propose to time this review to enable implementation of any findings within the lifetime of any consent.

Gas and Electricity Directives

4.4. SLC 12 of the gas and electricity supply licence, has been cited in the transposition notes for both the Gas and Electricity Directives as one of the means by which the GB has demonstrated compliance with the requirements in the Gas and Electricity Directives that customers are entitled to receive all relevant consumption data.

4.5. There are two instances where SLC 12 has been cited in the transposition note for the Gas Directive. Firstly, in respect of Article 3(5) (b), this provides that Member States shall ensure that customers are entitled to receive all relevant consumption data. Secondly, in respect of paragraph 1(i) of Annex I to the Gas Directive and where consumer rights in relation to being informed of actual gas consumption and costs frequently enough to enable them to regulate their own consumption are set out.

4.6. We are giving consideration as to whether any decision to grant the variation could affect compliance with the Directive and this could influence our future decision.

BG consent decision

4.7. We are requesting comments on the issues discussed in Chapter two and seeking your views on whether you agree with our assessment of BG's proposal and

whether we have identified all of the relevant impacts. We are also seeking views on the proposed alternative inspection regime for British Gas set out in chapter 3. We would welcome views on whether this would provide sufficient protection for the consumer.

4.8. To assist us in making a decision on BGs proposal **we are requesting responses by 1st June 2012**. Please see appendix 1 for details of how to respond to this consultation. Following consideration of responses, we currently expect to make our decision by the end of the summer.

Appendices

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Appendix 1 - Consultation Response and Questions

1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document.

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.3. Responses should be received by 1st June 2012 and should be sent to:

- Steve Rowe
- Smart Markets
- 9 Millbank, London, SW1P 3GE
- 020 7901 7468
- Smartermarkets@ofgem.gov.uk

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Having considered the responses to this consultation, Ofgem intends to issue a decision letter. Any questions on this document should, in the first instance, be directed to:

- Steve Rowe
- Smart Markets
- 9 Millbank, London, SW1P 3GE
- 020 7901 7468
- steve.rowe@ofgem.gov.uk

CHAPTER: Two

Question 1: Do you consider that the factors that we have considered are relevant and provide a robust framework for assessing the proposal?

Question 2: Are there any other relevant factors that we would need to consider, if we were to extend the consent to include advanced meters?

Question 3: Do you agree with our assessment of BGs proposal and whether the proposal provides a sufficient level of protection for consumers?

Question 4: Do you consider that we have identified all of the relevant factors for assessing the potential implications for competition?

CHAPTER: Three

Question 1: For each of the conditions we have proposed, do you consider that they are appropriate and provide a sufficient level of protection for the consumer?

Question 2: Is it appropriate to time limit the consent and include a sunset clause condition?

Question 3: What do you consider is an appropriate definition of vulnerable customers for the purpose of the conditions?

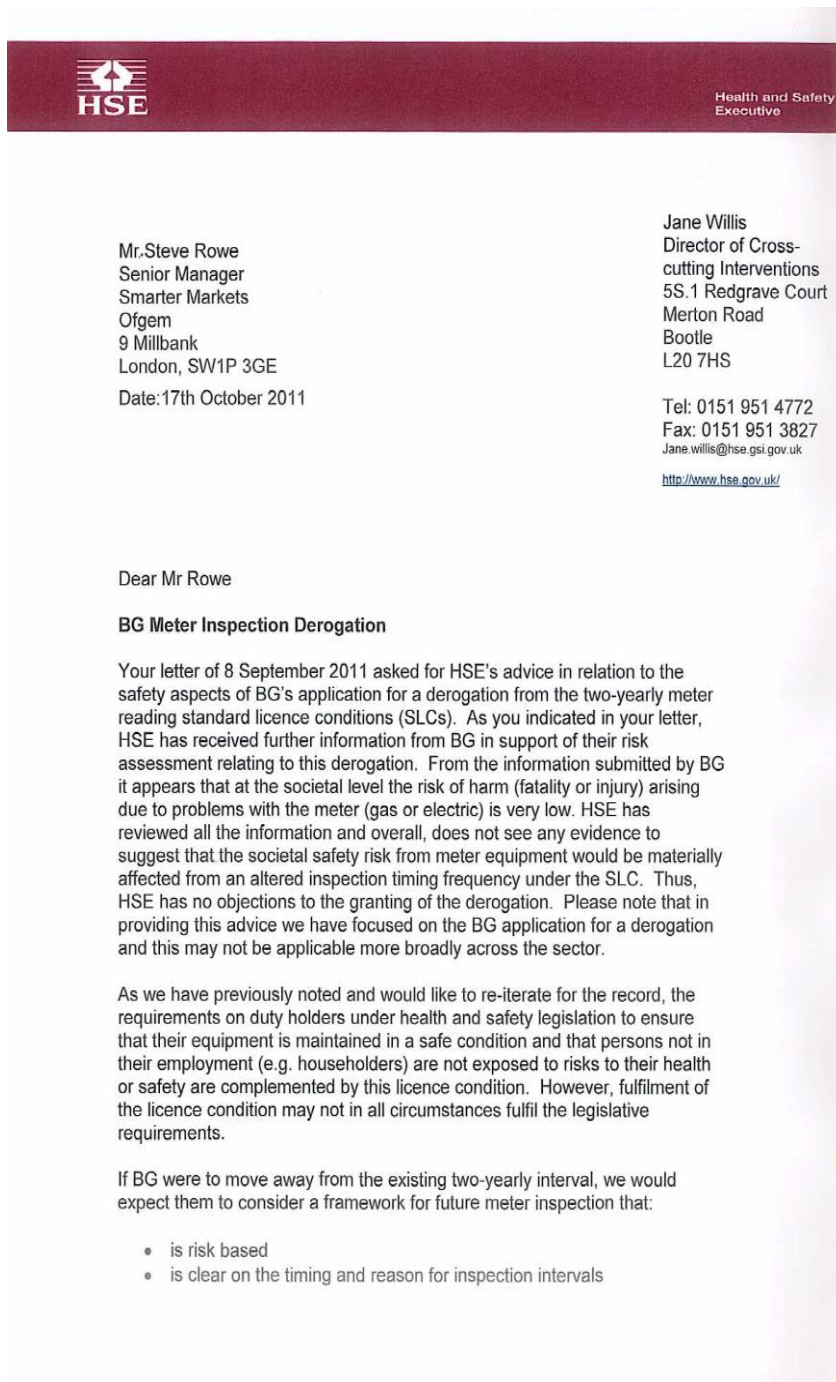
Question 4: Do you consider that linking the levels of theft detected to the conditions is appropriate, and if so, is it appropriate to set a tolerance to the level of theft detected?

Question 5: How do you consider that any risk management systems and processes should be monitored?

Question 6: We welcome your thoughts on whether there is any other specific data that we should be requesting as a part of the annual reporting.

Question 7: Do you agree with our proposal to review more generally the regulatory framework for the smart meter inspections?

Appendix 2 – HSE's advice to Ofgem



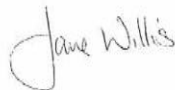
- has clear protocols for accepting existing meters on transfer of supplier
- has clear protocols for inspections (including factors taken into account)
- has clear procedures for action when defects are found
- has processes and procedures for escalation (internally) when problems are found
- has procedures for informing other suppliers of problems found with the meter environment (either locally e.g. within a metering room or along a street)
- has procedures for informing third parties (e.g. DNOs, IDNOs) regarding any defective equipment
- has an appropriate record keeping regime.

We also recognise that other parties may consider that inspection at the time of meter reading may help them discharge their duties under for example the Electricity Safety, Quality and Continuity Regulations (ESQCR) or Electricity at Work Regulations (EAWR). We note that BG indicate that for various reasons third party owners of equipment cannot place any reliance on a set meter inspection frequency and BG assume that they do not. We consider therefore, that if Ofgem decides in favour of a derogation for BG, that before any change is made all relevant third parties that appear to rely on the current inspection regimen should be consulted so that they understand the potential implications of the change.

In summary therefore, from the information provided including that supplied by BG, HSE does not see any evidence to suggest that the safety risk at a societal level from meter equipment would be materially affected by the proposed altered inspection timing frequency under the SLC. However, we reiterate that fulfilment of licence conditions may not in all circumstances fulfil responsibilities under health and safety legislation and we have outlined above the considerations a risk based approach should include. Furthermore, we take the view that any third parties who may currently consider that such inspections may help them discharge their duties under other legislation should be consulted on any proposed changes before they are implemented.

I hope that this is helpful.

Yours sincerely,



Jane Willis
Director of Cross-cutting Interventions

Appendix 3 – Responses to open letter

Transfer of costs

4.9. The GDNs did not express any concern regarding a transfer of cost or impact to their regulatory obligations under the Gas Safety and Management Regulations (1996). One of the GDNs were of the view that reducing the frequency of inspections would increase the safety risk to consumers.

4.10. One of the iGTs argued that the BGs proposal would result in an increase in costs for iGTs and IDNOs through increased call outs under their emergency metering service provisions to deal with public reported meter faults.

Our Views

4.11. We note that the GDNs do not consider that this will result in a transfer of costs. We do not agree that by granting consent will result in an increased level of emergency metering call outs. The suppliers have an obligation to ensure that meters are fit for purpose and are required to satisfy themselves that they are meeting the wider safety responsibilities and requirements set out in Health and Safety Legislation.

Impact on safety

4.12. One of the other big six suppliers commented that they can see the benefit in extending the meter inspection frequency, and were also considering moving to a risk-based regime and may also apply for consent.

4.13. One of the independent suppliers disagreed with the proposed changes and did not support a change to the current obligation. They stated that meters should be read every two years in order to gain regular meter readings and to identify meter read, theft and safety issues. They expressed the view that a meter check and meter reading would continue to be necessary even when smart meters are introduced to identify theft or meter problems and to reconcile the electronic reads.

4.14. Another independent supplier was concerned that the change may result in poor settlement data and confirmed that as the law stands they are considering setting up their own inspection business.

4.15. The Association of meter operators (AMO) suggested that it may be prudent to wait until the smart metering technical specification has been finalised prior to making a decision on the BG application.

Our Views

4.16. We note that other suppliers may apply for a consent to vary the terms of the licence condition. We are not convinced that granting the consent will have a negative impact in settlement data; the suppliers have commercial incentive to obtain meter reads to enable them to provide accurate bills to customers. We do accept that until such a point when the smart metering specification has been finalised, it would be difficult to consider an inspection regime for smart meters.

Theft

4.17. Two respondents commented that more information is required on the nature of the theft detection strategy and considered that prior to consent being granted a more detailed description of the proposed theft detection approach should be made available and that compliance with any theft detection process should be a condition of the consent.

4.18. One of the GDNs commented that it would be important to understand how the British Gas revenue protection/theft detection activities will maintain current safety levels of individual installations.

Our Views

4.19. Ofgem has recently published their strategy for theft detection, which places enhanced obligations on suppliers to detect theft; we agree that if we were to grant BG a consent to vary the levels of theft will need to be consistent with our theft strategy, transparent and binding.

Appendix 4 - Glossary

A

Advanced Domestic Meter

Gas : means a Gas Meter that, either on its own or with an ancillary device:

- (a) provides measured gas consumption data for multiple time periods and is able to provide such data for at least daily periods;
- (b) is able to provide the licensee with remote access to such data; and
- (c) is not a Electronic Consumption Data Display.

Electricity : means an Electricity Meter that, either on its own or with an ancillary device:

- (d) provides measured electricity consumption data for multiple time periods and is able to provide such data for at least daily periods;
- (e) is able to provide the licensee with remote access to such data; and
- (f) is not a Electronic Consumption Data Display.

Annual Quantity (AQ)

The sum (measured in kWh or therms) of the annual consumption of all meters on a site. AQs are based on historical usage from previous years.

G

Gas Distribution Network (GDN)

A network through which gas is taken from the high pressure transmission system and distributed through low pressure networks of pipes to industrial complexes, offices and homes. There are eight GDNs in Britain, each covering a separate geographical region.

Gas Transporters (GTs)

Holders of a licence to operate a system to convey gas granted under section 7 paragraph 4 of the Gas Act 1986 as amended.

I

Independent Gas Transporter (IGT)

An operator of a small local gas network, most of which are being built to serve new housing. IGTs may levy transportation charges on shippers.

Supply Point Administration Agreement (SPAA)

A multi-party agreement to which all domestic gas suppliers and all gas transporters are required by their licences to accede. It sets out the inter-operational arrangements between gas suppliers and transporters in the GB retail market.

Supplier

Holders of a licence to supply gas given under Section 7A (1) of the Gas Act 1986 as amended or a person excepted from the requirement to hold a licence by virtue of paragraph 5 of schedule 2A of the Act.

Supply Meter Point (SP)

A point at which consumers take gas off the gas transporter's network.

M

Must inspect obligation

Gas Supplier Standard Licence Condition 12.8: Unless the Authority otherwise consents, the licensee must take all reasonable steps to ensure that it inspects, at least once every two years, any Gas Meter and associated installation in respect of premises at which it is the Relevant Gas Supplier.

Electricity Suppliers Standard Licence condition 12.14: Unless the Authority otherwise consents, the licensee must take all reasonable steps to ensure that it inspects, at least once every two years, any Non-Half-Hourly Meter in respect of premises at which it has at all times during that period been the Relevant Electricity Supplier.

T

Theft of gas

Describes a number of offences under schedule 2B of the Gas Act 1986 where a consumer prevents a meter from correctly registering the amount of gas supplied, has damaged equipment or reconnects the supply without the relevant permission.

Appendix 5 - Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

Andrew MacFaul
Consultation Co-ordinator
Ofgem
9 Millbank
London
SW1P 3GE
andrew.macfaul@ofgem.gov.uk