



GDNs  
DNOs  
Suppliers  
Consumer groups

Promoting choice and value for  
all gas and electricity customers

By email

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Our Ref:  
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Date: 18 November 2010

Dear Colleagues,

**Request for information from all interested parties, regarding a request for the Authority to consent to the derogation of Gas Supply Licence Standard Condition 12.8-12.16 and Electricity Supply Licence Standard Condition 12.14-12.16, relating to inspection of meters**

On behalf of the Gas and Electricity Markets Authority (the 'Authority'), Ofgem is writing to seek information about the two-yearly meter inspections required to be carried out by suppliers.

Ofgem has received an application to consider a derogation from the Gas Supply Licence Standard Condition 12.8-12.16 and Electricity Supply Licence Standard Condition 12.14-12.16 (the "must-inspect" obligations). Based upon our initial assessment, we understand that the Networks currently rely on the existing arrangements to assist in discharging ongoing obligations<sup>1</sup>. Please note that we have not yet reached any conclusions on the application.

As you are aware, the Supply Licence Condition review (SLR) introduced some changes to the must-inspect obligations. Gas SLC 12.8 requires that '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 SLC 12.14 requires that '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'.

Throughout the SLR<sup>2</sup>, some Suppliers expressed a concern that the proposed must-inspect obligations were too onerous and did not reflect best value for money or safe guard consumers. Many suppliers have also consistently told us that the current inspection requirement is a barrier to the introduction of smart metering.

As a part of the SLR discussion around the metering licence conditions, the Health and Safety Executive (HSE) also confirmed that it is prepared to consider reform, however any

<sup>1</sup> Obligations under The Electricity Safety, Quality and Continuity Regulations 2006, as amended ("ESQCR") and Gas Safety Management Regulations 1996 (GS(M)R)

<sup>2</sup>Supply Licence Review - Final Proposals ref 128/07

changes should be risk and evidence based and should not result in any reduction in existing levels of safety, and preferably improve safety standards.

The licensing framework therefore permits a supplier to be able to request a derogation from the must-inspect obligations. In considering any application we would have regard to a number of issues, including how customers will be affected and whether safety will be compromised.

Since publishing the new licence conditions Ofgem has been approached by Centrica seeking a derogation from the must-inspect licence conditions. The proposal sets out to satisfy the concerns of Ofgem and the HSE which have been expressed previously. We are currently considering carefully the application in conjunction with the HSE.

As a part of our initial assessment of the application, one issue that we have identified is that the Gas Distribution Networks (GDNs) and Distribution Network Operators (DNOs) place some reliance on the two yearly meter inspections. In particular, we understand that the DNOs rely on the inspections to mitigate obligations under the Electricity, Safety, Quality and Continuity Regulations (ESQCR) and further, the GDNs under Gas Safety (Management) Regulations 1996 (GS(M)R).

We are also currently considering the impact of the Third Package of European Energy legislation<sup>3</sup> on this application and we will have to consider the application in the context of smart metering. At this initial stage, we would like to understand further whether removing the obligation or reducing the frequency of inspections would introduce undue risk, or introduce costs to network businesses. **In particular, we seek information from you on how and to what extent 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, and/or have any impact upon safety from a Network perspective.**

We note that Centrica's request for derogation does not distinguish between smart and dumb meters – although it does highlight the links with the smart metering business case. We would be keen to understand if the answers to the information we have requested would be different in relation to smart and dumb meters.

We request that you provide this information on a voluntary basis pursuant to the Authority's general market monitoring functions under Section 47 Electricity Act 1989 and Section 34 Gas Act 1986. These sections allow the Authority to collect information with a view to its becoming aware of, and ascertaining the circumstances relating to, matters with respect to which its functions are exercisable. In particular, the Authority may use this information to consider whether to amend SLC 12 in this respect or remove the specific obligation on Centrica.

The nature of the particular derogation application we have received is confidential and therefore we are unable to elaborate on the detail of the proposal at this stage. At a high level the proposal recommends that the inspections are carried out every five years, supplemented with a targeted theft detection strategy. Further details of the proposal is set out in the Centrica document which is attached to this letter.

We are also please that Centrica has committed to sharing its proposals with industry and will be hosting an industry seminar further details are set out in their appended letter.

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<sup>3</sup> In particular Directive 2009/73/EC concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC and Directive 2009/72/EC concerning common rules for the internal market in electricity and repealing Directive 2003/54

The closing date to respond to this open letter is 10<sup>th</sup> January 2011, if you would like to discuss any of the content in more detail please contact Steve Rowe on 0207901 7468 or email [steve.rowe@ofgem.gov.uk](mailto:steve.rowe@ofgem.gov.uk)

Andrew Wright  
Senior Partner, Markets.

13 October 2010

Dear Stakeholder,

### **Improving the Meter Inspection Regime**

As you know, British Gas is committed to working with Ofgem and other stakeholders to ensure the successful delivery of the smart meter implementation programme. The earlier these reforms can be agreed, the sooner customers will start to benefit from the energy efficiency and cost and carbon savings that smart meters will deliver.

A key aspect of the industry reform that is needed to start to unlock these benefits is reform of the meter inspection regime. The supply licence requires suppliers to physically inspect meters every two years. This is an obligation that must be addressed now as it directly and materially affects the incentives suppliers have to roll out smart meters in advance of the mandate deadline. One of the key benefits to suppliers and customers of smart meters is the avoided cost of pedestrian meter reading. If we do not need to collect pedestrian meter reads but are still required to inspect meters every two years, then the full cost of this activity will be attributable to the inspection requirement and the savings we can make from scaling back our pedestrian meter reading activity, and therefore pass on to customers, will be hugely reduced.

For the industry as a whole this means that the majority of the £2.7 billion of benefits that DECC has attributed to avoided meter reading in its smart meter impact assessment will not be delivered. It will also distort and delay supplier decisions about how and when to roll out smart meters, potentially delaying the huge carbon and energy efficiency benefits that smart metering will bring.

The ability for suppliers to apply for derogation from the licence requirement to inspect meters was put into the licence in 2007 so that suppliers could initiate reform in this area. This is precisely what British Gas has done by submitting a request for derogation to Ofgem in August 2009 and is now looking to expedite, by pursuing this open consultation with Ofgem and other stakeholders.

### ***The British Gas Proposal***

We propose that our obligation to inspect every two years is replaced by an obligation to undertake a risk-based approach to meter inspection, supported by a number of specific commitments. We will do this in a way which will enhance customer safety. In particular we will make the following commitments:

- We will commit to take all reasonable steps to ensure that we inspect all gas and electricity meters and associated installations within our ownership, at least once every five years.
- We will commit to undertake our revenue protection activity and theft detection activities for the period of the derogation.
- We will take reasonable steps to ensure that valid reads are obtained and used for billing at least once every two years for all customers each year, so that billing accuracy is maintained.

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- We will keep inspecting meters every two years for vulnerable customers on our Priority Services Register.

Our proposals will deliver the following benefits to customers, compared to the requirement we are obliged to meet today:

- Improved safety. British Gas has commissioned an independent assessment (undertaken by GL Industrial Services UK Ltd, formerly known as Advantica), which concludes that our proposals will lead to an overall improvement in safety. A copy of the GL report is attached to this letter.
- A crackdown on energy theft (now estimated to cost customers over £400m per year) by targeting more inspections in higher risk properties.
- Reduced cost and inconvenience to customers. The current obligation forces us to have expensive escalation processes to ensure we gain entry to customers' homes to perform the inspection.

Our proposal, if approved, will provide benefits to the wider industry:

- It will provide a major stepping stone towards the reform of the safety inspection regime necessary for smart metering. It will provide a catalyst for engagement with the Health and Safety Executive as well as generating crucial empirical data which may support further reforms.
- Network owners will see reductions in system losses as a result of our crackdown on energy theft. Since our proposals deliver an overall improvement in safety, energy networks will be safer, without the need for further action or investment by the networks to reflect these measures.
- Other suppliers will also benefit from the reduction in theft that we deliver (this is because there will be less residual unallocated gas and electricity that is charged back to suppliers).
- Granting our request may also prompt other suppliers to consider applying for a similar derogation. The more other suppliers present their own cases for reform to Ofgem, the more the benefits of improved safety, reduced theft and cost, and earlier smart metering will start to flow through to all customers immediately.

Further details about our derogation request are attached to this letter, together with a copy of the independent risk assessment of our proposals. We will also be facilitating an industry seminar at 10:30, Wednesday 15<sup>th</sup> December at the Elexon offices in London to provide further clarification and discussion about the case for action now on this issue. Should you wish to attend this seminar please contact Tina Healey at [tina.healey@britishgas.co.uk](mailto:tina.healey@britishgas.co.uk) to register your interest.

If you would like to discuss this issue in further detail please contact Steve Briggs, Head of Industry Codes and Metering Regulation at [steven.briggs@britishgas.co.uk](mailto:steven.briggs@britishgas.co.uk).

Yours sincerely,

Ian Peters,  
Chief Operating Officer,  
Managing Director,

## **Appendix: Further details of our proposals and supporting rationale**

### **Background**

1. British Gas has a Supply Licence obligation<sup>4</sup> to read and inspect all meters at least once every two years. We have requested that Ofgem grants to British Gas derogation from this Licence requirement. This possibility was specifically provided for in amendments to the revised Supply Licence made further to the Supply Licence Review in August 2007.
2. In finalising the new licence conditions in 2007, Ofgem stated that, *“We still think that the current obligation could be modified to give suppliers greater control over the management of the safety of meter installations and effective measures to deal with theft. The current obligation specified that an inspection of the meter and associated installation must be carried every two years. This may be too prescriptive”*. We share this view.
3. In commenting on the proposed changes to the obligation that was under discussion in 2006, the HSE stated that although it was *“not against a change to the status quo as such, any changes should be risk and evidence based and should not result in any reduction in existing levels of safety.”* *“The aim should be to at least maintain current safety standards and, preferably, to improve them”*. We believe we have gathered the necessary evidence to underpin our proposed alternative set of arrangements.

### **Our proposal**

4. Our specific proposal for the derogation is that Ofgem amends the current two-year “reasonable steps” requirement to a “risk based approach” requirement. We do not propose complete removal of the inspection requirement. We have suggested that Ofgem grants the derogation for five years with a review prior to its expiry in 2015. We propose to support this requirement with the following commitments:
  - We will commit to take all reasonable steps to ensure that we inspect all gas and electricity meters and associated installations within our ownership, at least once every five years.
  - We will commit to maintain revenue protection activity dedicated to the proactive detection of theft that will deliver broadly the same levels of theft detection and prevention set out in further detail later and our risk assessment.
  - We will keep inspecting meters every two years for vulnerable customers on our Priority Services Register.
  - To take reasonable steps to ensure that valid meter readings are obtained and used for all customers at least once every two years
  - To continue to comply with our Billing Code obligations, particularly we will continue to:
    - provide opportunities for customers to provide their own readings at any time of day; and

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<sup>4</sup> **Gas Supply Licence Standard Condition 12.8-12.16 and Electricity Supply Licence Standard Condition 12.14-12.16**

- seek to educate customers about the importance of sending in accurate readings.

### **Our proposals will improve the safety of customers**

5. British Gas has commissioned an independent assessment, undertaken by GL Industrial Services UK Ltd. (formerly known as Advantica), which quantifies the scale of the safety benefits associated with the current obligation. This demonstrates that the existing obligation generates very low safety benefits for customers.
6. We are concerned that in reforming the obligation safety is improved at the same time as the other customer benefits of reform are unlocked. Our formula for delivering this is a proposal to replace our two-year meter inspection compliance process with an inspection regime which has a risk based approach, supplemented by a five-year obligation and a targeted theft and revenue protection commitment. The GL report compares the safety benefits of our proposal with the existing obligation and concludes that our proposals will lead to an overall improvement in safety.

### **Our proposals will not require additional action by network owners**

7. Our proposals will make customers safer and so, we believe, will make a positive contribution to the safety agenda of electricity and gas network owners. The proposal to change the frequency of safety inspections, rather than remove them, and to support this with additional risk-based activity will not require additional action by network owners. For example, the Electricity Safety, Quality and Continuity Regulations 2006 and Gas Safety Management Regulations 1996 do not prescribe a specific inspection frequency
8. We do not believe therefore that our proposals will result in a transfer of costs to network owners. Nor would we wish this to be the case, given that such transfer of costs would ultimately be returned to suppliers and customers via increased transportation charges.

### **Our proposals will reduce theft and so deliver reduced costs to all energy suppliers and network owners**

9. Customers who try to steal energy will naturally seek to avoid detection of their theft, either by refusing entry to their property or by removing the signs of tampering in advance of an appointment. This leads not only to sustained theft but also to the perpetuation of unsafe metering situations. This helps to explain why meter inspections themselves rarely result in the detection of meter tampering and are, therefore, an ineffective way of seriously reducing theft or providing reassurance on safety in homes and businesses.
10. This means we need more targeted arrangements. Our proposals draw on our experience in 2009, when we began a new approach to detecting and investigating cases of suspected theft. This new approach included a doubling of our field-based resources devoted to tackling theft. As a result, theft cases identified by British Gas have increased by 112%. In the vast majority of cases, the meters were in a dangerous condition and would have remained so were it not for our revenue protection activity.
11. Our process is based on a combination of the intelligence that our Revenue Protection Officers obtain from working in their local communities, and the insights we get from relevant industry data. We work closely with the Police, distribution network operators and metering agents to generate leads for investigation (e.g. intelligence on cannabis farms, or landlords marketing free energy to tenants). We interrogate all sorts of industry data to identify potentially suspicious customer situations, such as repeated cases of refused entry, lower than expected consumption levels or non-purchase by pay-as-you-go energy

customers when we know the property is not vacant. We also have a free-phone tip-off line and are considering how we use the media to raise awareness.

### **Our proposals will reduce costs and inconvenience to customers**

12. The combined result of all the own-initiative revenue protection activity that we undertake is a much better return for customers, not only in terms of safety and theft, but also in terms of cost. The current obligation forces us to incur unnecessarily high costs leading to higher bills for customers, as well as inconvenience for them as a result of the escalation process that we are required to operate to ensure we obtain entry to perform the inspection. The revised inspection requirement that we propose will reduce costs to consumers associated with visits to inspect meters.
13. The commitments we are prepared to make to tracking down theft will deliver some additional savings to the wider industry and, therefore, customers. These savings will come through reduced industry smearing charges, such as reconciliation by difference and group correction factors, as well as reduced electricity losses.
14. The GL report does not take into account an important element of the current arrangements that we propose to retain, which is to keep the two-year requirement for vulnerable customers, defined as those who are on our Priority Services Register. Some of these customers may be less likely or less able than the average customer to call their supplier if they have a potential safety issue. Furthermore, vulnerable customers are less likely than the average customer to provide us with a read themselves. So for both these reasons we propose that we retain the two-year inspection requirement for these customers.
15. To address any concerns that there may be an impact on billing accuracy from a reduced number of pedestrian visits, we will also commit to take reasonable steps to ensure that valid meter readings are obtained and used for all customers at least once every two years. This will relieve us of the requirement to visit the customer to collect a meter read at least every two years, even when we have a complete, validated set of customer own reads from the customer. This will also encourage us to invest further in automated technology to make it easier for customers to give us their reads in the future.

### **Our proposals will provide a catalyst for the wider reform necessary to promote smart metering**

16. As well as failing to provide value-for-money for customers now, the current obligation is also an obstacle to suppliers and customers realising the benefits of smart metering. It should therefore be a question of when, not if, the obligation is reformed. One of the key benefits to supplier and customers of smart meters is the avoided cost of pedestrian meter reading. If we do not need to collect pedestrian meter reads, but are still required to inspect meters every two years, then the full cost of this activity will be attributable to the inspection requirement and the savings we can make from scaling back our pedestrian meter reading activity once smart meters are in place will be hugely reduced.
17. For the industry as a whole this means that the majority of the £2.7bn of benefits that DECC has attributed to avoided meter reading in its smart meter impact assessment will not be delivered if the two-year inspection requirement remains in place. Much more of this saving will be delivered under a regime which has a risk based approach, with a five-year obligation.



18. Our proposal, if approved, will provide a major step towards the reform necessary to the safety inspection regime in readiness for smart metering. It will provide a catalyst for engagement with the Health and Safety Executive as well as generating crucial empirical data in support of further and possibly wider ranging reform that shall benefit energy suppliers and customers as a whole.