Title:	**AMO response to Ofgem's consultation into two yearly inspection derogation**
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1. Management Summary

1.1. Purpose

This document is the response to the information request from Ofgem[1] dated 2nd April 2012, entitled "British Gas's request for changes to its meter inspection licence obligations".

This response is not confidential.

1.2. Background

The Association of Meter Operators (AMO) is a trade association representing the interests of its members. There are twenty members[2] on the AMO who include all of the active electricity Meter Operators and the largest gas Meter Asset Managers. Many of these companies also own significant quantities of metering assets, either directly or through associated companies.

1.3. Member involvement

Many of the AMO members are undoubtedly providing their own response directly to Ofgem. This AMO response does not necessarily represent the agreed views of every member on each issue. This response has been prepared by the AMO Consultant on behalf of the AMO members based on views expressed through individual discussion, meetings and written comments with members that formed the basis of our response to the 2010 Ofgem information request on this subject. The previous response has been updated to reflect the approach described in Ofgem's 2012 consultation document.

The AMO membership would welcome the opportunity to provide any further clarification or discussion of any of the issues raised by this response.

1.4. Key issues

It is important that this issue is widely and fully debated. The following key issues are highlighted from the response:

The AMO members are keen to see this subject fully debated, properly considered and ideally a largely common industry-wide site specific risk based approach adopted. The approaches may be different for the existing non-smart metering installation where smart meters are installed.

The societal risk assessment supporting any amendment of the licence condition should be carried out by an independent organisation who is not engaged by the applying party. Data from wider range of sources should be included. The reliance that other stakeholders (including energy networks, meter operators, meter asset providers, customers, society at large, HSE, etc.) place on the current supplier led process should be crystallised and considered.

The headline statement appears to be that by focussing on energy theft installations rather than safety inspection checks societal risk would reduce. This is predicated on an assumption that Centrica cannot undertake both energy theft obligations and two year safety inspection checks concurrently. Yet they are not mutually exclusive. The proposal is by substituting the actioning of one Supplier Licence obligation over another an end user who is stealing energy will be safer going forwards, whereas the customer who is not stealing energy will be more at risk as an individual.

Practical considerations have not been addressed, notably:

- Whether the differing electricity & gas approaches will be defined in similar terms
- How the gas 'must read' process will be amended to ensure the subsequent supplier has a clear view of when the last *physical* visit occurred
- Whether the risks of smart metering equipment differs from the historical metering equipment

[1] www.ofgem.gov.uk/Markets/sm/metering/crf/Pages/crf.aspx
[2] www.meteroperators.org.uk/members.php

2. Context

2.1. Overview

The AMO members welcome the submission by Centrica/British Gas as a mechanism to initiate the discussion on this important subject. A key element of the total benefits attributed to the rollout of smart meters as identified in the latest government Impact Assessment is the delivery of £2.7 billion savings from reduced meter inspection costs. It is clear that this benefit needs careful consideration and resolution whilst not at the expense of loss of protection.

Unless explicitly identified the comments below are not directed only at the Centrica proposals but at the general industry practices which are largely common across the industry. The term 'intake equipment' used in this document is intended to reflect that the safety inspection is not intended to only review the meter, but also the energy network equipment, and to an extent the customers equipment, such as a damaged meter box.

2.2. Meter Operators legal obligations

We note the Ofgem consultation document stats that Distribution Businesses rely on the two yearly inspection to support their obligations under the ESQCR. The identical obligations placed on Meter Operators is totally ignored by the consultation document. The AMO wishes to highlight, ***again***, that Meter Operators have identical obligations to Distributors under ESQCR Reg 24:

> **"…Equipment on a consumer's premises**
> **24.**—(1) A distributor or meter operator shall ensure that each item of his equipment which is on a consumer's premises but which is not under the control of the consumer (whether forming part of the consumer's installation or not) is—
> (a) suitable for its purpose;
> (b) installed and, so far as is reasonably practicable, maintained so as to prevent danger; and
> (c) protected by a suitable fusible cut-out or circuit breaker which is situated as close as is reasonably practicable to the supply terminals. …"

To date in discussion with the Health and Safety Executive (HSE) regarding the interpretation of "…so far as is reasonably practicable, maintained …" Meter Operators have relied on the at least two yearly visit from a meter reader.

In gas operations the requirement is less explicit on the Meter Operator[3] but the general legal duties under the Health & Safety at Work act apply to all employers:

> "…**3**(1) – It shall be the duty of every employer to conduct his undertaking in such a way as to ensure, so far as is reasonably practicable, that persons not in his employment who may be affected thereby are not thereby exposed to risks to their health or safety. …"

Whilst metering and intake equipment is designed and installed with the expectation that it will be safe for many years, with 45m installations there are going to be some that suffer from external influences, both deliberate and unintentional, that will not be identified without a physical visit.

2.3. Smart metering equipment

The industry is being required to install smart meters under a mandate from government. The requirements for whole current smart meters have become firmer and differ from meters used over the last 50 years. The 'smart metering system' will include:

- The electricity meter will include at least one contactor to interrupt the supply

This results in moving parts, and additional contacts which are prone to heating at high loads or where there are poor contacts. Historically prepayment meters were installed in domestic premises with generally low loads. The smart meter requirement are that all customers (domestic and non-domestic)

[3] Throughout this document the term Meter Operator is used to include the gas role of Meter Asset Manager (MAM)

single and three phase have a contactor installed. Some non-domestic customers have very different load characteristics (welding, motor starting, etc.) to that of a domestic customer.

- The gas meter will include a valve to interrupt the supply of gas

The risks associated with operation of a gas valve were well documented in evidence submissions to Ofgem/DECC in 2010/11

- Each meter will include a Home Area Network (HAN)

A smart meter requires to have electronics to support communications between meter and WAN. This adds extra equipment, which will be powered either from electricity supply, or batteries.

- Each Smart Metering System will include a Wide Area Network (WAN) communication device

A smart meter requires to have electronics to support communications between metering equipment and the WAN. This adds extra equipment, which will normally be powered from an electricity supply.

- Cost Competition

The industry would be failing in its legal obligations if these were not specified as an appropriate safety standard. However, the added complications associated with this equipment will change the risk profile. In addition, the increasing cost of copper and the international competitive nature of meter procurement has affected resulted in meter manufacturers who are seeking to manufacture metering equipment to the lowest cost. Anecdotal evidence indicates that this is resulting in less 'over engineering' than 20+ years ago. This will change the risks from electricity metering

From a positive perspective the smart metering system is more complex that a traditional metering arrangement. It is therefore likely to be visited for routine repairs (e.g. battery changes, updates of communications equipment), and/or fault investigations during its lifetime. Each of these visits must be recorded and used to perform an 'inspection' of the smart metering equipment.

2.4. Drivers for 'inspects'

The history of the Standard Licence Condition has been stated in the consultation document, but it is seeking to address three issues, which unfortunately are muddled together and the drivers often become confused:

- Regular meter readings
- Identification of interference/energy theft issues
- Safety/damage concerns with the meter intake equipment.

The following sections consider each of these aspects separately.

2.5. Regular meter readings

Meter reading provides a deterrent for energy theft by the knowledge that a supplier representative will call to inspect/read the meter. Reducing the inspections prior to the smart meter roll out is likely to reduce this deterrent and may increase energy theft.

Prior to the roll out of smart meters, customers who are not on prepayment meters and who intentionally or accidentally provide erroneous customer reads will be able to switch suppliers resulting in inaccurate bills. This will have an impact upon debt and a consequential effect through settlement on all other customers within the market.

Once a smart meter is installed then regular reading should be easily obtained.

2.6. Energy theft

Identification of deliberate interference or energy theft issues are not easy to detect, either from desktop research, or from a cursory visual inspection.

The consequences and therefore 'ownership' of identifying energy theft is split between energy suppliers and energy networks. The changes proposed by Ofgem are seeking to resolve this long standing weakness. The increased resources from all suppliers deployed into the identification and investigation of energy theft matters is welcomed.

The UK Revenue Protection Association (UKRPA) provided input to previous DECC/Ofgem consultations highlighting that many forms of illegal extraction could still occur with smart meters. In fact they provided evidence from AMR experience in the US that the ease of making these interferences may actually *increase* without a regular (or irregular) visit to the premises to inspect the intake equipment. It is inappropriate to highlight these methods in a document that will become public domain information, but the methods are well known to Ofgem and all stakeholders.

With a smart meter regular updates of meter reading information will be a useful tool to assist in highlighting potential energy theft. It is still not yet certain exactly which 'alert or alarm' functions will be included in the final smart meter specification, or which will require a mandated investigation. They could enable suppliers to follow up with a more detailed investigation of any potential faults, however these also bring 'false alarms'. Historically gas pre-payment meters included a 'tilt' alarm, which was reported via the smart card, unfortunately this generated a high proportion of 'false' reports that follow up generally cease. It is probable that the same effect will be seen with smart meters.

There are obligations on the current supplier, network company, meter reading, and metering roles to identify signs of interference, damage and to report these to the appropriate person to resolve/investigate. These obligations are embedded in legislation such as the Gas & Electricity acts, as well as industry governance documents such as the BSC[4], UNC, MOCOPA©, DUCUSA, MAMCoP, Ofgem gas meter reading CoP, etc.

Without the clarity of responsibility and appropriate reporting there is a concern that a meter reader (and meter operative) is targeted and often paid for obtaining a read (or changing a meter), as individuals or institutionally they may not have the correct incentives to identify, report and initiate further investigations into symptoms of theft. Anecdotally it is likely that the current mechanisms are therefore *under reporting* instances of suspected theft.

2.7. Safety/damage

There are similar obligations on the current distribution, meter reading, and metering roles to identify signs of damage or safety concerns and to report these to the appropriate person to resolve/investigate. These obligations are embedded in legislation such as the Gas & Electricity acts, Health and Safety at Work act, ESQCR, Gas Safety (Installation and Use) Regs, as well as industry governance documents such as the BSC, UNC, MOCOPA©, DUCUSA, MAMCoP, Gas Unsafe Situations Procedure, Ofgem gas meter reading CoP, etc.

There is a concern that a meter reader (and meter operative) is targeted and often paid for obtaining a read (or changing a meter), as individuals or institutionally they may not have the correct incentives to identify, report and initiate further activities to resolve issues of damage or safety. Anecdotally it is likely that the current mechanisms are therefore *under reporting* instances that need investigation and resolution.

The evidence from Post Emergency Metering Service (PEMS) provided by gas transporters has resulted in an average of 135,000/year metering related chargeable jobs over the five years 2006-2010. A chargeable PEMS job is the outcome of 11.4% of all the gas emergency call outs. This is an excessively high proportion of 'gas leaks' which are attributable to metering equipment. Some of these calls will have arisen from meter reading staff.

Site visits are regularly identifying unoccupied or derelict premises. Appropriate business processes should be in place to isolate the supply from these premises promptly to ensure unauthorised usage or accidental leakage of gas does not lead to an incident. Although the risks of gas explosion may be more evident, there are risks from electricity supply remaining in a derelict property which vandals or members of the public may suffer harm.

[4] For example: www.elexon.co.uk/documents/bsc_and_related_documents/bsc_-_bscps/bscp504_v27.0.pdf Appendix 4 & www.elexon.co.uk/documents/bsc_and_related_documents/bsc_-_live_version/section_l_v14.0.pdf Para 3.8 & 3.9

The East Sussex Fire and Rescue Service (ESFRS) produced a report in 2010 circulated widely within the industry (including Ofgem, HSE and Centrica) which identifies fires initiated at the electricity intake position. One of the fires proved fatal while others caused various degrees of property damage. Although this report was prepared by one fire service it has raised the profile within all fire services. Industry stakeholder feedback indicates that these incidents are not regional to the East Sussex area, but occur on a similar level across the country.

As a result of the ESFRS report MOCOPA© Parties are considering improvements to the practices surrounding meter location, signage and materials used for backing boards. Of particular relevance to the two-yearly checks may be further advice/training to identify the 'tell tail' early signs of electrical intake positions overheating. The Meter Operator and network company will be visiting as part of intended work so will benefit from any advice, whereas the 'meter reader' will no longer be visiting premises to identify these potential problematic situations.

2.8. Electricity Half Hourly & Gas Daily Metered

Since 1998 the data collection arrangements of the now 114,000 electricity metering systems traded on a half hourly basis are determined by BSCP502[5]. These rely on the NHH licence condition requirements for Measurement Class E (less than 100kW). All other HH sites are required to be visited at least annually for poly phase premises (virtually all), and two yearly for single phase (very few).

The approximately 4,000 gas daily metered sites, are visited at least annual primarily to perform a meter reconciliation between the hourly data and the prime meter register advance.

To date there has not been any formal change to amend these requirements. The vast majority of HH sites have regular remote data collection so the site visit requirement is only to satisfy the second and third drivers for site visits: energy theft and safety. With these premises the revenue is substantial and the safety risks enhanced.

[5] www.elexon.co.uk/documents/bsc_and_related_documents/bsc_-_bscps/bscp502_v20.0.pdf see 4.1.8

3. Consideration

3.1. AMO work to date

The AMO General Meeting in Oct 2009 was the first occasion when the AMO members discussed the 'electricity old chestnuts', at the request of the ERA (now Energy UK) we included the two yearly safety checks. For this part of the meeting included representatives of the HSE (electricity), the ERA and AMO members. There was an initial discussion about the risks of communal electricity meter cupboards and the HSE view that these were dangerous and that prepayment meters should not be installed in them due to the enhanced risks.

We then followed the discussion with consideration of the changes to the two year safety visits. The view from the HSE was clearly stated that it was up to the industry to prepare a case for changing the two yearly requirement. The discussion was clear that a *site specific* risk based approach was likely to be the most appropriate, particularly having just discussed the risks associated with communal meter cupboards. It was recognised that a suitable period of inspection could range from less than two years to longer than two years. There is nothing 'magic' about a two year period.

The discussion then extended to the factors appropriate for consideration, some of which are described below. It was recognised that many of these factors are either not known/captured by current industry practices or where they are capable of being recorded the quality of data is suspect.

As a result of the General Meeting discussion the 'electricity old chestnuts' and subsequent 'gas old chestnuts' document captured the consideration of the two yearly safety inspection. At the following MOCOPA© & MAMCoP sub-group discussions although the subject has been discussed, the prioritisation of issues led to a view that a supplier representative should take the lead in consideration. To date, and certainly since the Ofgem consultation, no further consideration has been given to progressing the issues. At an AMO smart metering forum meeting in Dec 2010 our British Gas metering representative led a discussion and provided background to the Centrica proposal. Since then we have been awaiting the outcome of Ofgem's deliberations.

3.2. "Two years"

For historic reasons the licence conditions for gas & electricity are slightly different. In gas the requirement is to have the metering visited at least every two years and the date of the last inspection is captured on central industry systems. There is a process in place for the gas transporter to achieve a visit, 'must read', if the premises is not visited in the required timescales. A change of supplier does not alter this requirement.

In the electricity arrangements the 'clock' is reset on change of supplier. There is no central record of the last inspection date, the supplier retains their own records, and does not pass on to a new supplier. It is therefore possible that a customer changes supplier within two years and provides regular 'customer own reads' can avoid any visit. This means that some customers may accidentally, or intentionally, avoid the metering equipment inspection for many years. In the non-smart metering environment they could also give a series of incorrect meter readings.

This discrepancy is inappropriate going forward with any new requirements in the smart metering environment. In the interim it should be something Ofgem for consider changing as part of the response to Centrica's application.

3.3. Risk based approach

The 'risk' can be considered at two levels, as both societal and *individual* risk to the public inherent within the metering portfolio. These must continue to be managed downwards during the smart meter roll-out – this is what the HSE will expect the industry to do.

The Centrica/GL report makes some potentially misleading statements. The headline statement appears to be that by focussing on energy theft installations rather than safety inspection checks societal risk would reduce. This statement is flawed as it is predicated on an assumption that Centrica cannot undertake both energy theft obligations and two year safety inspection checks concurrently. Yet they are

not mutually exclusive. What Centrica is effectively proposing is that while by substituting the actioning of one Supplier Licence obligation over another a customer who is stealing energy will be safer going forwards, whereas the customer who is not stealing energy will be more at risk as an individual.

It is fully accepted that a blanket two year inspection cycle is not appropriate for all customers/premises, in some cases a shorter period may be appropriate in others a longer period. In various forums different factors have been considered, particularly where the meter position is located:

- Internal to the premises, e.g. under the stairs, on an exit route vs. in an external garage
- In a communal meter position – easily accessible, locked but accessible to tenants, used as store room, vs. easily accessible to vandals
- When installed in an external meter box the location of the meter box – a box on the outside of a property in a 'high crime neighbourhood' will have different risks compared with one on an isolated rural property
- If the [gas] meter has a metal casing which will be subject to a higher rate of decay in a humid or aggressive coastal location (say x miles of coast)
- If the [gas] meter has a metal casing which will be subject to a higher rate of decay in a humid location such as a cellar
- History of energy theft at the premises - the actions associated with energy theft are particularly dangerous, so when there is a record of interference at a premise/customer it may be important that more regular checks are carried out
- Installation age (e.g. > [15] yrs)

This list is not exhaustive and not all points listed may have a material impact on the risks associated with intake equipment. How significant each of these factors is has not been accessed, largely because the information to make the assessment is not available, nor are the risks. The risks will be safety risk/consequence, intake equipment causing fire under a stairs, gas leak under stairs compared with gas leak in externally ventilated meter box. Similarly the risks of energy theft differ, it is more discrete and more difficult to find meter interference in a meter located in a dark, cluttered under stair cupboard than in a communal meter position.

It is also important to make the process simple and efficient striking an appropriate balance between the risks and benefits.

3.4. Practicality

From a practical perspective it will be a difficult process to manage if each supplier adopts a differing approach. In particular, the current gas 'must read' process would need to take account of the relevant supplier at the time, one may be operating on the current two year cycle, whereas another may have an 2, 3, 4, 5 year cycle. Similarly if there are differing exceptions, vulnerable customers of certain types or different meter or intake equipment types.

Differences across different energy suppliers may lead to some energy networks, Meter Operators and/or Meter Asset Providers (MAP) initiating their own inspection regime, which would be difficult to manage without some common approach across all energy suppliers.

There is a reference in the Ofgem letter to inspect all meters "within our ownership" at least once every five years. What do Centrica mean by "ownership"? Only those owned by the Centrica MAP? Or more likely the responsibility of Centrica energy supplier, as the derogation is applicable to the supplier licences. This needs clarifying.

3.5. Logging of all visits

Currently not all visits that could be regarded as a safety inspection are logged and recorded by industry. Increasingly in the smart metering environment we will be seeing meter operatives attending site to investigate/resolve communication problems. These operatives should be suitable skilled to perform a visual site safety & energy theft inspection of the metering installation, possibly both fuels, even when the customer is not dual fuel customer. These visits could then be used to 'reset the clock' on inspection visits.

This requirement will need to be captured and incorporated into the smart metering requirements going forward.

Could require each energy supplier to ensure that the staff visually check the household gas & electricity meter. Meter operative staff would be trained to identify concerns with both fuels, even if they were not trained to change both meters.

4. Consultation Questions

4.1. Ofgem Chapter Two

4.1.1. Question 1

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

Ofgem have not addressed the different societal and individual customer risks described above (section 3.3) and in the HSE letter. Whilst extending the frequency of inspections may be appropriate for the whole population (society), the risk factors to be considered for individual customers (site specific) have not been addressed in the consultation. The HSE letter is consistent with the approach described in section 3.3 of determining risk factors specific to the premises, which will then determine the period before a future inspection is intended. It would be beneficial to all industry participants to jointly develop the site specific risk factors.

4.1.2. 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?

The current licence condition include advanced meters. It is not clear if the Ofgem proposals cover domestic and non-domestic customers, and whether the different risks associated with each have been considered.

4.1.3. Question 3

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

The proposed changes to the revenue protection regime are proposals, and have not been implemented.

See also answer to question 1.

4.1.4. Question 4

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

The consultation document highlights (para 2.32) the current differences between the gas & electricity licence conditions, specifically where in the electricity condition, the 'clock' resets on change of supplier. The consultation document does not specify whether the intention is to harmonise the gas & electricity obligations, one way or the other. Or whether the electricity arrangements will remain such that a customer can avoid visits at all. See section 3.2 above.

The impact on the legal obligations which may transfer onto the separate competitive role of a Meter Operator have been totally ignored. Para 2.42 states that the obligations are on Suppliers, that is incorrect, as repeated from our last submission in section 2.2. Having a consistent framework across all suppliers has helped Meter Operators (and network companies) operating for multiple suppliers to be assured of a common inspection regime. These proposed changes will require review and reconsideration of the Meter Operators risk assessment. May also require review of commercial arrangements as Meter Operator can be appointed by a Supplier or directly by a customer.

The consultation often uses the term "meter" – when the context of the current inspection is for the meter and the associated network companies "intake equipment". The scope of the "inspection" will need to be clearly stated, as to whether the new inspection regime will only visually "inspect" the meter, and/or the network intake equipment, and/or the customer's intake equipment. See comments in section 2.6 & 2.7.

Paragraph 2.34 does not explain how the incoming supplier is aware that the customer has not had an inspection for 4 years and therefore the new suppliers' obligation to read is almost immediate. The document does not explain how the 'must read' triggered by the gas network company will be prevented.

If customer reads are used to update the 'last read date', then there will be no industry record of when the last *physical visit* to the premises occurred.

The approach described in paragraph 3.17 will provide a benefit to organisations which includes a service activity which has business reason to attend households for other reasons. This provides an considerable advantage to energy companies with a servicing activity. There are benefits in facilitating all visits from register gas safe operatives and registered electricians to inspect metering equipment, but introducing such a framework would require considerable effort across the industry.

4.2. Ofgem Chapter Three

4.2.1. 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?

Condition a) – need to remove the existing differences between gas & electricity – does the clock continue to reset on each change of electricity supplier. If so then, it is possible that customers will not receive a visits for many years. Should it read "..at least every 5 years…" – if the risk assessment determines (see response to Chapter 2, question 1 above) a 2 yearly visit, then should a warrant be used to gain access after two years?

Condition b) – A *site specific* risk assessment should be used to determine risk factors for non-domestic customers, which may determine a less than five years interval

Condition c) – see comments above in section 2.5

Condition d) – It is not clear how a 'target level' is set under the future proposals. BG made the linkage between theft and safety, 95% of 'target level' defined by energy value, would incentivise targeting the large value thefts rather than the smaller individual occurrences

Condition e) – No evidence is provided for the assertion made in paragraph 3.15. Unless the premises is visited it is difficult to see how the vulnerability of the assets installed can be determined.

Condition f) – Excellent idea, but gives a very different commercial framework. Would any reputable gas or electrical contractor attending premises be able to 'sell' their inspection services to the incumbent energy supplier? How would the quality of inspection be monitored/regulated?

Condition g) – Transparency of the approach being used by BG should be given to industry. Ideally the industry should jointly develop a site specific risk based approach which can provide a consistent approach to safety and revenue protection – both of which are activities where competition in standards would appear to be inappropriate.

4.2.2. Question 2

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

Yes. Although previous Ofgem reviews have not always occurred until many years after their intended date. Some of the changes envisaged will take some years before the impact will be identifiable.

4.2.3. Question 3

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

Do not have strong feeling on which definition; however the definition used by Ofgem will have a more transparent governance underpinning any future proposed changes.

4.2.4. 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?

See response to Chapter 3, question 1

4.2.5. Question 5

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

Yes. Ideally transparently provided to industry so there can be informed challenge of BG's approach.

4.2.6. 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.

The numbers and type of issues identified and reported to network companies, Meter Operators and customers for resolution.

4.2.7. Question 7

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

Yes. Many of the issues are complex and would benefit from a common industry approach. Ideally the industry should jointly develop a site specific risk based approach which can provide a consistent approach to safety and revenue protection – both of which are activities which competition in standards would appear to be inappropriate.