



**By email only**

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1 June 2012

Dear Mr Rowe,

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

I am writing in response to your consultation concerning British Gas's (BG's) request for changes to its meter inspection licence obligations. The response is not confidential. We also responded on 10 January 2011 in relation to Centrica's derogation application for the same licence obligations.

We support in principle any change to the inspection regime that maintains safety but removes costs that are incurred by unnecessary visits to premises. However, it is important to ensure that there will be no detriment to other suppliers, for example in particular through suppliers acquiring more gas meters where the two year inspection has passed. Whilst therefore we welcome this initiative we do not believe that Ofgem has demonstrated that the transfer of costs (and other impacts) resulting from this situation is unlikely to be material. Paragraph 2.2 of the present consultation states:

"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 200 and b) any changes are unlikely to have a "significant" impact to the Authority, industry or general public."

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And at 2.34:

“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.”

We consider that only a thorough impact assessment would identify in detail how other suppliers might be affected. Intuitively one would expect the proportion of transferring customers that require an imminent or overdue inspection to increase significantly and to continue at a higher level; this is because for the majority of customers BG would have that much longer to perform the inspection and would have no need for early recourse to special visits or warrants in difficult-to-access cases. To argue, as Ofgem does, that the change would simply bring forward a cost for those may not necessarily be correct.

At present, over 60% of sites that churn to npower requiring an imminent inspection need further intervention: this includes a special visit and perhaps a warrant visit. In addition, therefore, we would expect a larger number of sites to trip over into this costly process. The driver for the high cost of these services is in part the need, because of the short window, to ringfence staff to focus on and perform a more inefficient process compared with the normal inspection process. Such an increase in work would also lead to costs related to acquiring, training and equipping further staff.

We would therefore expect a fairly significant transfer of costs from BG to other suppliers and only an impact assessment will properly assess the extent of that. If the impact assessment does indicate a significant transfer of costs then provided they can be dealt with fairly across the industry we would support the change.

We have a few additional comments in answer to your specific questions, as below.

***For each of the conditions proposed, do you consider that they are appropriate and provide a sufficient level of protection for the customer?***

With regard to the first, “To take all reasonable steps (including obtaining a warrant for access, where reasonable) to inspect meters every five years.”: this includes additional wording ‘where reasonable’ that does not appear in the current licence condition. The meaning of the words in this context is unclear and detracts from the rigour of the requirement in the licence condition.

Further, and for the avoidance of doubt, the inspection must include the meter and associated installation equipment.

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

We agree that given this is an untested proposal prudence dictates that there should be a review and sunset clause, fixed at three years initially.

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

The ERA’s definition of vulnerability is better suited to situations that are face-to-face: for example, discussion at pre-disconnection visits or through particular customer

contact. Suppliers will not know prior to an inspection visit the circumstances within a household; they will only know of vulnerability if the customer appears on the Priority Services Register. The wider definition would be unworkable in meter inspection terms. We would suggest, therefore, that the definition set out in SLC 26 of the supply licence is used in this context.

We have the same comment as above in relation to the wording 'where reasonable'.

***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?***

We agree that there should be a requirement for BG to meet a certain percentage of a target for theft detection. However, we struggle to think how the target could be calculated objectively; to base it on previous performance would assume that performance has already been optimum.

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

We agree that BG should document its own processes and consider that they should be published and open to scrutiny as to their suitability prior to Ofgem giving approval to the change. Publishing them would encourage other industry participants to take similar steps.

For a change of this sort we would expect to see an external audit requirement.

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

Our January letter made the point that such a change as this needs to be considered in the round and in the context of the industry codes as well as the licence obligations. We therefore agree that there should be wider review and recommend that this change should form part of that review.

Please contact me if you have any questions about this response.

Yours sincerely

Gerald Jago