



SP ENERGY NETWORKS

Regulation & Commercial

Steve Rowe
Smart Markets
Ofgem
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SW1P 3GE

Your ref

Our Ref

Date 1st June 2012

Contact / Extension

Paul McGimpsey
0141 614 1951

Dear Steve

British Gas's Request for changes to its meter inspection license obligations

Thank you for your consultation of 2 April 2012.

SP Energy Networks (SPEN) welcomes the opportunity to comment on this consultation. We fully support the British Gas request to change the meter inspection license obligations to a five year cyclic frequency from the current two year regime.

SPEN strongly believe that any potential risks could be mitigated should Ofgem consider the following points in relation to BG's proposal.

- A minimum meter installation requirement
- An enhanced comprehensive 5 yearly inspection regime to be developed and led by DNO's with;
- A risk based approach formalised based on asset inspection and health indices, capital investment, operative training and asset intervention

SPEN agree with Ofgem's proposal to review more generally the regulatory framework for the smart meter inspection. We have noted a few points in our response that we feel may help develop the proposal going forwards to enable the five year inspection regime to offer customers the optimum level of protection and benefits.

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In the attached appendix, we have answered the questions posed in the consultation.

In summary, we fully support British Gas's request and would welcome the opportunity to discuss any aspects of our consultation response in more detail.

If you have any queries please do not hesitate to get in touch with myself on 0141 6141951.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Paul McGimpsey', written in a cursive style.

Paul McGimpsey
Distribution Policy Manager
Regulation and Commercial
SP Energy Networks

Att.



British Gas's request for changes to its meter inspection licence obligations **Response by SP Energy Networks**

Introduction

We can see a case for relaxing the two year meter inspection requirement for British Gas in the light of the evidence and undertakings that it has submitted. However, given the losses penalty mechanism for DNOs as part of DPCR5, it is important to us that there is no loss of focus on the part of suppliers to the detection and prevention of theft. It appears that detection of both theft and hazards would be likely to benefit from the targeted theft detection activity proposed. We have not seen the detail of how this will work, and would support adherence to a publicly available process being made a condition of the consent. We support the proposal for theft detection targets to apply, and for a review of the position after three years. We also agree with the proposal for a wide ranging review of the meter inspection obligation within that period. Our detailed comments on the questions asked are set out below.

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?*

SPEN agrees that the factors considered by Ofgem are relevant and provide a robust framework for assessing the proposal.

Please find further discussion points below relating to factors as appropriate.

- **Health and safety**

SPEN believe that asset inspection should be undertaken with effective management of risk through targeted inspection. Health and safety is the primary consideration in the assessment of the proposal.

- **Theft detection**

On the basis that British Gas's request is linked to a more targeted inspection regime and the measurable detection of theft, it is appropriate that theft detection is considered as an element of the framework to assess the proposal.

- **Billing accuracy**

Billing accuracy is improved by obtaining regular meter readings both from customer and Supplier driven data retrieval and is a vital component in assessing losses for DNOs under the DPCR5 incentive. SPEN agree that this is therefore an important framework element by which to assess the proposal and also note that the condition set out in Chapter three of the Consultation will help satisfy this framework requirement.

- **Impacts upon competition**

We agree that the impact on competition must be examined in order to comply with the wider industry regulations. From a DNO perspective, the impact upon competition would be minimal as we would still have to inspect and maintain our assets in line with ESQCR obligations which are not subject to competition.

- **Implications for networks**

The main implication for networks is that the ESQCR obligation to inspect LV service points can still be met under the proposed five year inspection regime. Currently the obligation is discharged to Meter Operatives and Data Retrievers. The proposal that the service position will be inspected at least every two years when obtaining a meter reading and in addition, a detailed asset condition assessment every five years will ensure that the obligation can still be met.

- **Scope of any consent**

The scope of the proposal is an important factor to consider. SPEN strongly agree with the view that the scope should extend to all meters and LV service positions including smart meters. Further analysis must be carried out to establish the potential of increased risk associated with the roll out of smart meters as opposed to traditional metering. We support the proposal for a wider review of meter inspection.

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 roll out of universal smart metering brings with it a number of opportunities and risks that need to be considered and managed by the industry and factored in to the proposal.

Whilst there are many security benefits that will arise from having smart meters, the meter installation includes meter tails and associated equipment. Suppliers will need to consider how ESQCR obligations in this regard will be managed post smart roll out.

The visits to customer premises by qualified meter installers, which for many customers happens only at meter recertification, provides the opportunity to complete a more comprehensive installation inspection than meter readers would typically complete.

However, the roll out of new equipment and technology into more than 25 million homes introduces an additional macro risk to our customers. The industry, via the Smart Meter project, must establish protocols for minimum installer qualifications, and quality assurance of both workmanship and the devices that are being installed. Special safety consideration will need to be given to the initial installations of Smart Meters as with all new product launches due to the potential failure rate at the infancy stage. The consequence of equipment failure is significant and requires to be managed.

We have in previous responses, identified specific concerns regarding the suggested installation of a Wide Area Network (WAN) device in the meter tails between the cut out and the meter (if the smart gas meter is rolled out first). This creates significant new risk that needs to be factored into this debate (e.g. a new technology introduced into a modified metering installation).

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

SPEN agrees with Ofgem's assessment of BG's proposal and concludes that it provides a sufficient level of protection for consumers. However, we feel that a greater level of protection should be added if the visual inspection is enhanced further to include a condition based asset inspection linked to health indices, the details of which can be found later in our response.

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

From a networks perspective, we believe that Ofgem have identified all 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?*

In general we agree that each of the proposed conditions are appropriate and afford a suitable level of protection for consumers. Please find more detailed responses below for each condition.

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

We agree that inspecting meters every five years commensurate with risk is an appropriate condition.

The principal purpose of the inspection regime is to ensure that existing assets remain fit for purpose and safe as originally designed and to identify any material changes to the environment which may affect risk. SPEN's policy is to ensure that asset inspections are undertaken at a frequency that is consistent with effective management of risk. Currently SPEN relies on Meter Operators and Data Retrievers to inspect service termination equipment that is installed at the service position in accordance with Regulation 5 of the ESQCR.

We accept that the inspection period in relation to electricity metering and associated equipment is not set out in the ESQCR. We agree that any move away from the current 2 year period set out in Supply licences (in the case of electricity, within each 2 year period while the supplier has responsibility for the supply) should be risk- and evidence-based. The ESQCR require that distributors, generators and meter operators ensure that their equipment is (inter alia) protected, used and maintained so to prevent danger, interference, or interruption to supply so far as is reasonably practicable. With regard to inspection, a distributor (or generator) must, so far as is reasonably practicable, inspect his network with sufficient frequency so that he is aware of action required to ensure compliance with the Regulations. In relation to metering equipment and service termination this inspection function is currently carried out by suppliers on DNOs behalf.

We accept that in principle the risks of a reduction in inspection frequency would be more than offset by a targeted approach to risk based theft detection. We believe that

this coupled with the benefits offered by Smart Metering combined with a 5 yearly cyclic inspection regime will lead to an optimum level of protection for the customer.

- 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.*

As per the reasons stated above under condition a), we agree that two yearly inspections of meters for vulnerable customers would be acceptable.

- 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.*

We would agree that obtaining a valid meter reading every two years would provide a sufficient level of protection for the consumer. This frequency will allow for a visual inspection at the highest level to ensure that the installed meter is recording data and ensure billing and settlement accuracy.

SPEN are obligated via the ESQCR to inspect LV service points, currently discharged to Meter Operatives and Data Retrievers. The BG proposal that the service position will be inspected at least every two years when obtaining a meter reading and in addition, a detailed asset condition assessment every five years will ensure that the obligation can still be met. This is under the condition that the five yearly asset inspection is carried out by an appropriately qualified person. We believe that this would be an improvement on the current inspection regime.

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

Meeting minimum levels of theft detection would ultimately offer protection to consumers both in relation to physical harm through interference and financially through the impact of theft on costs. However, as noted in our later response in question 4, whilst we acknowledge the logic of the evidence, the detail of the proposed "targeted" theft detection approach is not fully set out in the submission or other documentation that we have seen to date.

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

Marinating the two year inspection cycle for meters that BG acquire through churn prior to enrolling them into the five year cycle will reduce the risk associated with gaining assets with an unknown condition assessment and ensure that any issues are picked up as early as possible. We would agree that this approach seems entirely reasonable.

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

Whilst this appears to be an appropriate condition for meter inspection, we would query the competency of an individual other than a qualified meter operative to assess the condition of LV service position assets.

- 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.*

SPEN agree that maintaining auditable documentary records of systems and processes used is a vital condition to allow for thorough analysis prior to the end of the consented period.

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

We would agree that it is appropriate to time limit the consent and also to include a sunset clause. The suggested consent of three years is entirely appropriate.

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

We would agree that the ERA's definition of a vulnerable customer is appropriate given the purpose of the conditions.

"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".

As this definition extends to both customers and other residents the level of risk associated under the factors considered in Ofgem's assessment above are mitigated further.

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?*

As stated in our previous response (10th January 2011), although we acknowledge the logic of the evidence and arguments presented, the detail of the proposed "targeted" theft detection approach is not fully set out in the submission or other documentation that we have seen to date.

Apart from safety considerations, and given the losses penalty mechanism for DNOs as part of DPCR5, it is important that there is no loss of focus on the part of suppliers to the detection and prevention of theft. We would expect that before consent is given, a detailed description of the proposed theft detection approach is made available, and that adherence to this process remains a condition of the assessment.

As regards the Smart Metering roll-out and theft detection, we accept that subject to detailed specification, anti-tampering and other functionality within the meter, together with associated services to be provided by the DCC, should enhance detection, preventing theft and associated damage to equipment. There is clearly a need for a phased approach to changes in working practices to cope with the transition from "dumb" meters as the new technology is rolled out across GB up to 2020.

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

SPEN's asset risk management philosophy is based on a holistic assessment of risk and considers both new build and in service assets. Our inspection and asset management methodologies for in service assets has been developed to be commensurate with specific asset criticality and risk managed using organised programmes of work.

We believe that this holistic approach to asset risk management including operative training, condition assessment, asset intervention and asset inspection is required to manage current and future risk, irrespective of whether the inspection cycle is increased from two to five years.

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.*

We do not have anything additional to add regarding the data to be requested as 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?*

Whilst we agree with the proposals to review more generally the regulatory framework for the smart meter inspections, we would like to take the opportunity to highlight a few key issues that concern for SPEN.

In relation to inspections in general, we have specific concerns regarding the current regime. At present, the current inspection under MOCOPA by suppliers covers not only the meter and the meter tails but includes the relevant DNO equipment.

The principal purpose of the inspection regime is to ensure that existing assets remain fit for purpose and safe as originally designed and to identify any material changes to the environment which may affect risk. SPEN's policy is to ensure that asset inspections are undertaken at a frequency that is consistent with effective management of risk.

Currently SPEN relies on Meter Operators and Data Retrievers to inspect service termination equipment that is installed at the service position in accordance with Regulation 5 of the ESQCR.

We believe that the revised five year cyclical inspection regime requires to be enhanced to be considered fully fit for purpose.

We believe that DNOs require a specific risk based approach to inspections which the current Supplier regime does not satisfy. Visual inspections will only provide an indication of the current condition of the assets. SPEN's asset management policies target investment in a coordinated programme of work using CBA techniques. SPEN supports and has led the development of condition based investment programmes using a health index approach, as detailed in our DPCR5 and RIIO T1 submissions, targeting end of life assets within categories four and five. Our asset intervention methodologies have been accepted by Ofgem as Tier 2 and have recently been fast tracked as part of the RIIO T1 regulatory review. We believe that the development of health indices utilising condition information should be adopted for the majority of assets including LV service positions and this methodology should be considered as part of the move

towards smart metering. This would help ensure that DNOs continue to be compliant with the ESQCR whilst also affording better protection for consumers.

One final consideration in relation to reducing inspection periods is costs. Although reducing the frequency to five years for Supplier led meter inspections will result in a cost saving, the potential long term effect for DNOs will be increased costs. Improved asset information reporting will lead to an additional requirement to replace end of life assets.

Conclusion

SPEN strongly believe that the above risks could be mitigated should Ofgem consider the following points in relation to BG's proposal, irrespective of whether the inspection regime is reduced from two to five years.

- A minimum meter installation requirement
- A comprehensive ongoing 5 yearly inspection to be developed
- An enhanced risk based approach formalised based on asset inspection and health indices, capital investment, operative training and asset intervention led by DNOs

To summarise, SPEN agree with Ofgem's proposal to review more generally the regulatory framework for the smart meter inspection and we have noted a few points above that we feel may help develop the proposal going forwards to enable the five year inspection regime to offer customers the greatest level of protection and benefits.