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Dear Steve,

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

Thank you for providing SSE and SGN with the opportunity to comment on the proposals set out in the above consultation. We welcome the continuing engagement with Ofgem's Smarter Markets division. I have set out our response to each of the questions in the attached appendix.

Overall, SSE does not oppose the move by British Gas to request changes to its meter inspection licence obligations. SSE would agree with Ofgem's analysis that this proposal has the potential to be in the interests of consumers given the potential cost reductions. Prior to Ofgem considering the British Gas proposal further we have highlighted a number of issues that we believe should be taken into consideration.

SSE would support a wider review of the metering inspection obligations as suggested within chapter four of the consultation document. Ofgem are currently proposing changes to suppliers' obligations in relation to gas theft¹ (and it is proposed that electricity will soon follow) and this will lead to an increase in theft activity throughout the industry. Also, the proposed implementation of the Theft Risk Assessment Service and the proposed incentive scheme, will lead to an increased level of activity by suppliers in order to detect greater levels of theft. As much of British Gas' proposal is based a more targeted approach to inspections, it would appear Ofgem are also moving the industry to a similar scenario for gas theft. Ofgem should consider a wider review of the overall metering inspection regime to take into account the proposed licence conditions relating to theft. Such a review should also take into account the impending rollout of smart metering and Ofgem's wider Review of Metering Arrangements² (ROMA).

¹ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=100&refer=Markets/RetMkts/Compl/Theft>

² <http://www.ofgem.gov.uk/Markets/sm/metering/tftm/roma/Pages/roma.aspx>



In conclusion, whilst SSE is not opposed to British Gas requesting a derogation from its metering inspection obligations, we do believe that Ofgem must give further consideration to a number of issues that we have highlighted within this response in order to mitigate the impact of this derogation on suppliers and consumers.

Please call me if you have any questions

Yours sincerely

Steven Findlay

Regulation

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?

Yes, SSE agrees with the majority of factors that Ofgem has considered.

However, Ofgem has failed to consider the significant impact this proposal could have on the Gas Transporters central system (Xoserve) that currently provides notification that a supplier is required to inspect a particular gas meter every two years. We believe that further analysis should be given as to whether Xoserve can be expected to distinguish between those gas meters that are supplied by British Gas should this derogation be granted. Also, the associated cost of doing so should be taken into account and provided on a user pays basis (i.e. British Gas should be required to pay for the additional services).

SSE does not agree with Ofgem's analysis in relation to the transfer of costs between suppliers. Ofgem states within paragraph 2.34 that the proposal does not have an impact on the incoming supplier as the customers meter will need to be inspected at some point. Whilst we agree with this for electricity (as the two year period would restart upon a change of supplier) we do not agree this to be the case for gas customers. As it's likely a significant number of British Gas customers will transfer to a new supplier without having had a metering inspection for over two years, this will instantly trigger the supplier's obligation to inspect the customers meter. As Ofgem has highlighted within the consultation document:

"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."

Given the point highlighted above, and the increase in the number of customers that will instantly require an inspection upon transferring from British Gas to another supplier this will significantly impact upon scheduled metering work at an increased cost to other suppliers.

We would therefore advocate an extension to the four month period in which a supplier is given to inspect a customer's gas meter upon change of supplier. Assuming British Gas are given a derogation to this obligation, it is safe to assume that Ofgem are satisfied that customers gas metering systems are able to sustain a longer period without inspection. We would therefore suggest that the incoming supplier is provided with a minimum of one year in which to inspect a customer's gas meter.

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?

No, we would consider theft to have immaterial difference whether it was through a traditional or advanced metering solution. Although data available from an advanced meter would be more readily available with the customer's permission SSE believes that where a supplier has reasonable grounds to suspect theft (i.e. extremely low

usage) the supplier should be able to request additional information from that particular advanced meter in order to assist in its analysis of theft.

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

Yes, SSE agrees with Ofgem's assessment of British Gas' proposal subject to the issues highlighted in our response to question one.

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

Yes, however SSE does not believe that British Gas will be under enough competitive pressure in the short term to deliver these cost savings to its consumers. As we have previously highlighted, Ofgem's proposals in relation to theft of gas (and potentially electricity in the future) should result in a wider review of the metering inspection regime. Therefore, if all suppliers can access similar cost savings, competitive pressure would ultimately force the suppliers to pass the cost saving through to its consumer base. Without an equal playing field we would not envisage this as an expected outcome.

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?

Yes, SSE agrees with the proposed conditions of potential consent. However, we have highlighted a number of potential issues that Ofgem must take into consideration.

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

Yes, SSE would agree with the proposal to set a review point upfront in order to establish whether the proposal has delivered the intended benefits.

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

Regardless of which definition Ofgem decide to use, it is difficult for a supplier to determine whether a customer is vulnerable or not unless the customer notifies their supplier that this may be the case. SSE uses every contact with customers, either in physical presence or via the telephone, to determine whether a customer is vulnerable and potentially eligible for the Priority Services Register (PSR). This information is then recorded within our customer service system to ensure that customers receive all of the necessary additional services.

Given the above, SSE would suggest that Ofgem adopt the PSR definition. In doing so, a supplier will know exactly which customers it should target for meter readings by using its PSR database. Whilst we agree that using the ERA Safety Net will capture a wider group of customers, suppliers do not have the ability to determine



whether a customer is vulnerable without that information being readily available from the customer. Therefore, it would be near impossible for a supplier to target a particular consumer group for inspections without that information being available.

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?

Yes, given that the majority of British Gas's proposal is based on their risk based approach to inspections, it is reasonable for Ofgem to expect a continuation in the current level of theft investigations. However, given Ofgem's recent proposals in relation to gas theft it is likely that this would act as a deterrent to potential customers considering theft and this could directly impact on theft activity as a result of suppliers' success. We would therefore recommend that the tolerance level should be reviewed in line with our recommendation within our response to question two.

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

Ofgem should consider undertaking an audit of British Gas's systems and processes to ensure the risk management is being undertaken in a consistent manner as British Gas would have stated in order to receive this derogation.

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.

In line with other reporting requirements, Ofgem should collect data in relation to the compliance with each of the conditions suggested.

SSE would suggest that any information Ofgem decides to request from British Gas should be made widely available (not the specific figures but the reporting requirements) to industry. This would assist in a supplier's request for a similar derogation.

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

Yes, as we have highlighted SSE would support a review of the framework.