



Promoting choice and value

for all gas and electricity customers

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

Decision

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Overview:

Gas and electricity suppliers are required under their licence to inspect their customer's meters at least every two years, unless the Authority consents to alternative arrangements. British Gas has formally requested that we consent to their application of alternative meter inspection arrangements. These would, in their view, improve efficiency while at least maintaining current levels of consumer protection.

This document confirms our decision to consent to British Gas's proposal to change their meter inspection arrangements, subject to certain conditions. We also set out our plans to review the meter inspection arrangements more generally in the light of the forthcoming smart meter roll-out.

Context

In 2006, Ofgem carried out a comprehensive review of gas and electricity supply licence conditions. One of the changes that we introduced as a result was to permit suppliers to seek approval from the Gas and Electricity Markets Authority (“the Authority”) to operate alternative meter inspection arrangements to those specified in the supply licences. Consistent with our Corporate Strategy theme of promoting quality and value for all consumers, this change was intended to enable us to consider on a case-by-case basis whether proposed arrangements would serve to better protect the interests of consumers.

The focus of this document is on the decision that we have reached in considering a request by British Gas to apply alternative meter inspection arrangements.

Associated documents

- [Tackling Gas Theft - New requirements for gas suppliers, Ofgem, October 2012 \(137/12\)](#)
- [British Gas's request for changes to its meter inspection licence obligation, Ofgem, April 2012 \(43/12\)](#)
- [Review of Metering Arrangements - Decision and consultation on transition to smart meters, Ofgem, December 2011 \(175/11\)](#)
- [Request for information, Ofgem, November 2010](#)
- [Supply Licence Review - Final Proposals, Ofgem, June 2007 \(128/07\)](#)

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Executive Summary

Gas and electricity suppliers are required by licence to inspect their customers' meters every two years. This inspection is an important consumer safeguard, as it requires suppliers to check for evidence of deterioration that might affect the safety of the meter or its proper functioning and for evidence of tampering or theft. The inspection also enables the supplier to take a physical meter reading, which helps ensure the accuracy of customer bills.

As provided for in their licence, British Gas (BG) has asked Ofgem to consent to it applying alternative meter inspection arrangements. Having considered the evidence from BG, the Health and Safety Executive (HSE) and other stakeholders, we have decided to consent to this request, subject to certain conditions, for a period of three years, starting in April 2013.

BG's alternative arrangements will apply a risk-based approach to undertaking meter inspections. This will give BG greater flexibility around how it sequences meter inspections within a five-year inspection cycle. We consider that this should be in the best interests of customers. Based on the evidence provided by BG, this approach would at least maintain current safety levels, will reduce the inconvenience for customers of meter inspections and will be more cost efficient. We expect customers to benefit from these cost savings.

Given that this is the first consent of its kind, we consider that it is appropriate to provide extra reassurance for customers. Accordingly, BG has agreed to meet a range of conditions across three broad areas: safety, theft detection and meter reading. These include commitments to meet theft detection targets (in line with their risk assessment), to obtain a valid meter reading for all customers at least every two years and to continue to inspect the meters of customers on their Priority Services Register every two years. To facilitate this latter commitment, we will expect BG to take steps to add eligible customers to their Priority Services Register, and to inform them of the services available to them under this scheme.

BG will be required to report to Ofgem on a quarterly basis on their performance against these commitments. This will enable us to monitor those commitments and the consumer experience of the alternative arrangements.

We intend to review the meter inspection arrangements more widely, with a view to facilitating the significant benefits in this area that have been identified by DECC's impact assessment for the smart meter implementation programme. Our aim is to implement new arrangements to coincide with the start of the mass roll-out of smart meters.

1. Introduction

Chapter Summary

This chapter sets out the regulatory framework in relation to meter inspections and summarises British Gas's proposal for alternative arrangements for its meter inspections. We also set out the steps that we have taken in considering British Gas's application.

1.1. Under the supply licence standard conditions, there is an obligation on gas suppliers¹ and electricity suppliers² to inspect their customers' meters every two years. The two-year meter inspection is primarily designed to ensure safety of the meter but also has advantages for theft detection, meter reads and accurate bills.

1.2. These obligations were reviewed as part of our Supply Licence Review in 2006 during which we considered that the current obligations may be overly prescriptive. However, on the advice of the Health and Safety Executive (HSE), we did not remove the obligations at that time but instead introduced the ability for the Authority to consent to alternative arrangements for suppliers on a case-by-case basis.

1.3. In general terms, a meter inspection requires the supplier to carry out a visual inspection to assess whether there has been damage to the metering or associated equipment. This includes checking the metering installation for any interference that may prevent the meter from registering the quantity of energy supplied; or deterioration that may affect its safety or proper functioning. The supplier is also required to obtain a physical meter reading.

Outline of the British Gas proposal

1.4. In August 2009, British Gas (BG) formally requested Ofgem to consent to its application of alternative meter inspection arrangements. This is the first time we have received such a request from a supplier.

1.5. BG's proposed meter inspection arrangements involve operating a risk-based approach, and extending the minimum requirement for the frequency of meter inspections from two to five years. To support their application, BG shared with Ofgem its analysis of the safety impacts and cost savings. Further details can be found in our April consultation document.

1.6. BG requested that the consent apply for five years up until 2015, with a review prior to its expiry. BG proposed to support the alternative arrangements with a number of undertakings:

¹ Standard Licence Condition 12.8 - Inspection of Gas Meters

² Standard Licence Condition 12.6 - Inspection of Electricity Meters

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- To continue to detect theft³ broadly to the same levels set out in their risk assessment.
- To take all reasonable steps to ensure that valid meter readings are obtained and used for all customers at least once every 2 years.
- To continue to inspect meters at least once every 2 years for those customers on their Priority Services Register (PSR)⁴.
- Seek to arrange a visit by a meter reader where customers are having difficulty reading a meter.

1.7. BG presented the case that its risk-based approach would help reduce gas theft and reduce safety risk to customers, at significantly lower cost than its current arrangements. In this way, BG considered that their alternative arrangements would represent better value for money for customers and would better facilitate the benefits⁵ of smart metering in the longer term. BG also felt that consent for its alternative arrangements would prompt other suppliers to make their own cases to Ofgem and lead to benefits also flowing through to their customers.

1.8. Following BG's application in 2009, we issued an information request to understand if the proposal would have particular implications on networks. Following our analysis of the responses to the consultation we engaged with BG and the HSE to consider how best to assess the costs, benefits and risks.

1.9. This has been an iterative process, and BG has supplemented its evidence base throughout. We also requested advice from the HSE on the safety implications of BG moving to their alternative inspection arrangements. We received the HSE's initial advice in October 2011.

1.10. In April 2012, we published our assessment of BG's proposals. We consulted on whether we had considered the relevant factors and whether our minded to decision to consent would act in the best interests of customers.

1.11. At the same time, BG provided additional evidence to Ofgem to support their case for including their early smart meters within their alternative inspection arrangements. We sought further advice on this point from the HSE on the safety impact of extending the scope of the consent to include BG's smart meters. We received the HSE's advice in June 2012.

³ The term 'theft' describes a number of offences under the Gas Act 1986, and Electricity Act 1989, where a consumer prevents a meter from correctly registering the amount of energy supplied, has damaged equipment or reconnects the supply without the relevant permission.

⁴ Gas and electricity supply licensees have a duty to establish a PSR. The PSR provides additional protection for pensioners, disabled or chronically sick customers by entitling them to additional services free of charge from their supplier.

⁵ The Department of Energy and Climate Change (DECC) has attributed a benefit of £3.2bn to avoided site visits in its impact assessment for the smart metering implementation programme.

Structure of this document

1.12. Chapter 2 sets out our decision with respect to BG's request to apply alternative inspection arrangements. We also set out our reasoning, including how we have taken into account responses to our consultation.

1.13. Chapter 3 sets out the next steps, including our approach to monitoring BG's performance. We also discuss our intention to review the meter inspection framework more generally in the light of the forthcoming roll-out of smart meters.

2. Our decision

Chapter Summary

This chapter sets out our decision with respect to BG's request to apply alternative meter inspection arrangements. We also set out our reasoning, including how we have taken into account responses to our April consultation.

Our decision to consent

2.1. The Authority has decided to grant consent to BG to allow them to operate their alternative meter inspection arrangements, subject to complying with a number of conditions. These conditions are set out in Table 1.

2.2. The conditions are intended to provide additional reassurance that BG's risk-based approach will deliver the intended outcomes in a way that does not lead to deterioration in the customer experience. To enable Ofgem to monitor compliance with these conditions, and the customer experience more broadly, we are requiring BG to submit to us a quarterly report on the performance of their alternative inspection arrangements. We discuss monitoring and reporting further in chapter 3.

2.3. We have published the gas and electricity consent notices alongside this document. The scope of the consent covers traditional and advanced domestic meters covered by the scope of the licence, including BG's early smart meters. For the avoidance of doubt, the consent does not include meters that meet DECC's Smart Metering Equipment Technical Specification (SMETS). We discuss this further at the end of this chapter.

2.4. According to the terms of the consent, BG will operate their alternative inspection arrangements from 1 April 2013. The consent will last for three years until 31 March 2016. In the event that BG voluntarily wished to revert to the Standard Licence Condition meter inspection obligations, they would be required to notify Ofgem and request that the consent be revoked. We also reserve the right to revoke our consent in the event that we consider the alternative meter inspection arrangements are not operating in the best interests of customers.

2.5. Our intention is to review the existing meter inspection arrangements, with a view to putting in place new industry-wide arrangements in 2015, to coincide with the start of the mass roll-out of smart meters. As such, we would envisage that this consent would fall away at the time the new arrangements come into effect. We discuss our planned review further in chapter 3.

2.6. In the event that we have been unable to implement new arrangements by April 2016, we will consider whether it is appropriate to extend the consent. We will do this sufficiently far in advance of the consent sunset to avoid undue uncertainty for BG.

Table 1 : Conditions of consent

Condition	Requirement of the condition
A	To take all reasonable steps to inspect meters every five years.
B	Notwithstanding condition A, to take all reasonable steps to inspect every two years the meters of customers on the Priority Services Register.
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 customer premises, obtaining remotely or from the customer.
D	To achieve levels of theft detection consistent with those set out in BG's risk assessment.
E	To maintain the two-year inspection cycle for meters acquired through churn, prior to enrolling them into the five-year cycle.
F	To continue to inspect meters at each available opportunity.
G	To operate a risk-based approach to meter inspections. Maintain documentary records of the systems and processes used, and activities undertaken, to give effect to this approach.
H	To monitor and report to Ofgem on a quarterly basis performance against conditions A to G.

Our reasoning

2.7. When making decisions such as granting consent under a licence condition, we must have regard to our statutory duties and principal objectives, which include protecting the interests of existing and future consumers.⁶

2.8. In our April consultation, we sought views on whether we should consent to BG's proposed alternative arrangements and, if so, the scope of application and time limit of any consent. We also sought views on our proposed conditions of consent. To inform consideration, we identified a number of factors that we considered relevant to our assessment of whether BG's proposed arrangements would be in the best

⁶ As set out in section 4AA of the Gas Act 1986 and section 3A of the Electricity Act 1989. Among other things this includes; a) individuals who are disabled or chronically sick; (b) individuals of pensionable age; (c) individuals with low incomes; and (d) individuals residing in rural areas. This is not to be taken as implying that regard may not be had to the interests of other descriptions of consumer.

interests of customers. These were: safety, theft detection, billing accuracy, competition impacts and implications for networks.

2.9. We received twenty responses to our consultation. The majority agreed that we had considered the relevant factors and that these provided a robust framework for assessing the proposal. A summary of responses can be found in Appendix 1.

2.10. Our assessment against each of the relevant factors is set out below. This includes how we have taken into account consultation responses and our conclusion on what conditions are appropriate to safeguard customers' interests.

Safety

2.11. A key component of the two-yearly meter inspection obligation⁷ includes a visual inspection of the metering installation and associated equipment for signs of deterioration, tampering or theft. All things being equal, reducing the frequency of meter inspections could increase the risk of damage or theft not being identified by suppliers in a timely way and lead to an increased safety risk. Safety is therefore a critical consideration in assessing BG's proposed arrangements.

2.12. BG concluded from its trials and risk assessment⁸ that theft generates a serious safety hazard. BG considers that its more targeted, risk-based approach to theft detection has significantly improved theft detection levels, and consequently is more effective at removing safety risk than the current two-year inspection obligation.

2.13. In our consultation, we considered the HSE's advice that the societal safety risk from a meter would not be materially affected by the proposed changes. Nevertheless, we consulted on a number of proposed conditions to mitigate safety risks.

Stakeholder views

2.14. Respondents generally agreed that the proposed conditions of consent would adequately mitigate safety risks. Respondents also broadly agreed with the principles that the HSE set out in their advice to Ofgem. One respondent argued that there is a difference between societal and individual risk and considered that Ofgem had not addressed this.

⁷ Gas Supply Standard Licence Condition 12.8: 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 Supply Standard Licence condition 12.14: 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.

⁸ Further information on BG's risk assessment can be found [here](#).

2.15. One respondent noted that they had no objection to the derogation request being approved as long as BG maintained its safety record at current levels (especially in relation to vulnerable customers) and maintained meters and associated equipment in a safe condition.

Conclusion

2.16. We are content that BG's approach should not lead to deterioration in safety performance or an increase in safety risks. We recognise that the meter inspection arrangements under the licences are one element of a legal framework that energy suppliers must comply with. Any decision we make in relation to a request from a supplier does not affect their obligations under health and safety legislation.

2.17. In assessing the safety implications of BG's proposed arrangements, we have placed significant weight on the advice of the HSE. This advice is significant in that it suggests that the societal safety risk from meter equipment would not be materially affected by an altered inspection frequency under the licence conditions. The HSE has provided its advice having scrutinised the evidence provided by BG, which included its risk-based approach. We are therefore content that the alternative arrangements as defined do not increase the level of risk to customers.

2.18. In operating its risk-based approach, BG will need to consider a range of factors to assess risk at an individual level so that they can consider how best to remove risk to customers at any point in time. In particular, we will expect BG to operate its risk-based approach in a way that:

- Is clear on the timing for sequencing the inspections
- Includes clear protocols for accepting existing meters on change of supplier
- Includes appropriate management records and systems for informing third parties regarding defects.

2.19. To provide greater confidence that safety risks are being adequately mitigated, we will introduce a number of conditions as part of our consent. We note the broad support from respondents for the specific conditions on which we consulted.

2.20. We agree with BG that it is appropriate to introduce back-stop measures to ensure that meters are inspected at least every five years. This is the intent of Condition A.

2.21. BG's risk assessment made a link between safety risk and theft detected. It is therefore important that an appropriate level of theft is detected. As discussed further in the next section, we will require BG to detect a prescribed level of theft, in line with that stated in their risk assessment. This is the intent of Condition D.

2.22. As a part of its alternative arrangements, BG will carry out data mining and analysis to inform their risk-based approach. To form a view on the level of risk that

the metering installation poses, this will need to consider a range of attributes about individual meters. To do this effectively, BG will require a certain level of understanding about a meter's physical attributes. We are of the view that BG should inspect the meters it acquires on churn to enable a risk profile to be calculated, prior to enrolling them into their alternative inspection cycle. This is because BG may not have prior knowledge about the metering assets or associated risks. This is the intent of Condition E.

2.23. BG provides a range of services that may involve visits to customer premises. We consider that it would be prudent and in the best interests of customers for BG's employees or representatives to take the opportunity to inspect meters when appropriate and reasonably practicable. This is the intent of Condition F.

2.24. Given the nature of the risk-based approach it is important that BG documents the process that they operate to ensure that it is robust and delivers effective risk management. This is the intent of Condition G.

2.25. Ofgem has a general duty to monitor the market. Nevertheless, we consider that it is appropriate in this case to develop a specific monitoring and reporting framework to monitor the effectiveness and ongoing performance of BG's alternative meter inspection arrangements. We will do this by monitoring all conditions of consent. This is the intent of Condition H.

Theft detection

2.26. As noted earlier, BG's risk assessment made a link between safety risk and theft detected. Given this linkage, we highlighted in our April consultation the importance of detecting an appropriate level of theft each year in order for the assumptions of the risk assessment to remain valid. In addition, energy theft has an adverse effect on customers as it increases the bills of other customers. It is important therefore that any change in inspection arrangements does not decrease the levels of theft detected by BG.

2.27. We considered that it would be appropriate to require BG to detect a minimum level of theft each year. In recognition of the inherent variations in theft detection, we proposed to include reasonable tolerances on the target level of theft detection (95% of the levels set out in the risk assessment).

Stakeholder views

2.28. All respondents agreed that there should be no compromise regarding theft detection and most agreed that it would be important for BG to undertake sufficient theft detection activity to maintain the hypothesis within their risk assessment.

2.29. One larger supplier commented that meeting minimum levels of theft detection would provide an important consumer protection. Another larger supplier argued that the target for theft detection should be based on the level of resource deployed to detecting theft and not the actual level of theft detected.

Conclusion

2.30. Given the link between theft detected and safety risk removed, we consider that it is important that BG detects an appropriate level of theft. BG's risk assessment calculates the overall level of safety risk on the basis of detecting each year 1806 individual cases of gas theft and 4890 individual cases of electricity theft. We therefore consider it is appropriate to incentivise performance based on the outputs (theft detected) rather than the inputs (resource deployed). This is the intention of Condition D.

2.31. We note that BG's proposal is based around more targeted inspection arrangements, which in their analysis could be expected to detect a higher level of theft. Nevertheless, we will provide for to a 5% tolerance around the target theft detection levels.

2.32. It is worth noting that Ofgem has recently proposed stronger obligations and incentives on gas suppliers to encourage them to be proactive in detecting and preventing gas theft.⁹ We have proposed that BG is not included in the incentive scheme for the first few years because its arrangements for theft detection may be more developed than others. Notwithstanding this, BG will be required to participate in our other theft initiatives, including the proposed new Theft Risk Assessment Service to generate theft leads. We are currently developing proposals for tackling electricity theft.

Billing accuracy

2.33. Meter inspections are an important vehicle for obtaining meter reads – along with customer reads (and, increasingly in future, remote readings from smart meters). For customers' bills to be accurate, it is essential that meter reads are processed frequently and in a timely way. Any reduction in actual reads could result in more estimated bills (if a customer read is not provided), which could mean a reduction in the quality of data used for billing. This could lead to customer dissatisfaction and could exacerbate customer problems with debt.

2.34. In our April 2012 consultation, we recognised that consenting to a five-year inspection frequency may affect the meter reading data available for billing for some customers. Specifically, it may affect those customers who:

- Do not submit their own reads
- Have not been visited by, or have not provided access to a meter reader
- Have not been targeted for a meter inspection based on a risk assessment.

2.35. We consulted on whether it was appropriate to impose conditions on BG relating to their overall levels of meter readings, and the steps that they might reasonably be expected to take to obtain a meter reading at least every two years.

⁹ We intend for these arrangements to come into effect on 8 January 2013.

In addition, we consulted on the need for additional protections for vulnerable customers on the basis that billing errors might be expected to have a more significant impact – and on the appropriate definition of vulnerable customers in this context.

Stakeholder views

2.36. A number of respondents agreed with our proposal to include a specific condition and felt that it would offer adequate protection to customers in relation to the integrity of meter readings.

2.37. A number of suppliers argued that the commercial incentives are such that meter reads are obtained more frequently than required under the meter inspection obligations. A number of suppliers also commented that there are other obligations in industry codes to provide regular gas and electricity meter readings. In this respect, one respondent emphasised that BG should continue to meet its obligations (eg under the Balancing and Settlement Code) to ensure that wider settlement systems and processes were not affected.

2.38. One respondent commented that there is a risk that BG may record a meter read provided by a customer as a valid meter inspection. They considered that the consent should make it clear that BG must also continue to inspect and carry out the associated meter read.

2.39. In general, most of the respondents were supportive of using the licence definition of vulnerable customers as captured under the PSR. The suppliers considered that it was not appropriate to use the Energy UK¹⁰ definition of vulnerable customers for the purpose of meter inspections, because it is designed to protect customers from indebtedness, and as such requires a disproportionate level of escalation and engagement.

Conclusions

2.40. Given that this is the first consent of its kind, we consider it paramount that the consumer experience is a positive one. We therefore consider it appropriate to impose certain conditions to the consent designed to protect and promote the integrity of meter readings, particularly for vulnerable customers.

2.41. As set out in our April consultation, we consider that less frequent meter inspections could, all else equal, affect the data available for billing for certain customer groups. To provide extra customer safeguards, we have decided that BG should take all reasonable steps to inspect and read the meter of customers on their PSR at least every two years.¹¹ This is the intent of Condition B.

¹⁰ Details of Energy UK's Safety Net can be found [here](#).

¹¹ Customer reads do not constitute an inspection read for the purpose of satisfying the conditions of consent.

2.42. We consider that it is appropriate to use the PSR as a proxy for customer vulnerability in this context and that this condition will provide sufficient protection for BG's PSR customers. Analysis of data on suppliers' performance against their Social Obligations¹² shows that BG has only the third largest number of customers on its PSR register. BG also has a disproportionately low level of customers who are signed up for quarterly meter reads. Using the PSR as a proxy for vulnerability could be a disincentive on BG to put customers on the PSR because of the additional services they are required to offer. Therefore, we are seeking a commitment from BG to increase the numbers on its PSR, and those registered for quarterly readings. We are also reviewing how the PSR operates more widely and aim to complete this review in 2013/14.

2.43. One way to help promote billing accuracy is for customers to provide more meter reads. Evidence from BG suggests that there is already a growing trend for customers to provide their own reads. This may be an indicator that some customers prefer to provide a reading rather than wait in for a meter reader. Nevertheless, to provide reassurance that the overall level of meter reads will not diminish, we consider that BG should take all reasonable steps (short of seeking a warrant) to obtain a valid meter read for gas and electricity meters, every two years, for all customer groups. This is the intent of Condition C.

2.44. To facilitate an increasing number of customer reads, we expect BG to make it clear to customers how to provide a read and apply a consistent approach to validating meter reads regardless of the channel through which they were provided, to prevent customers receiving bills based upon estimated reads. We also expect BG to continue to comply with the industry codes of practice on Back Billing and Accurate Bills. We would not want to see changes with respect of meter readings leading to an increase in billing disputes.

Impacts on competition

2.45. It is in the interests of customers for suppliers to compete on price and, in doing so, invest time and effort in finding ways of reducing their costs. While this might increase profits for individual suppliers in the short-term, there are likely to be benefits for customers in the longer term. BG is seeking consent because it wants to make efficiency savings and so help to unlock the benefits of avoided site visits identified in DECC's smart metering impact assessment. Over time, these efficiency savings should flow through to prices (for example, as other suppliers seek to make similar cost savings), so customers will benefit.

2.46. In our April consultation, we posed two key questions in relation to the potential impacts on competition. One was about the extent to which the efficiency savings being sought by BG are accessible to other suppliers. The other was about the extent to which granting consent might result in consequent costs or risks to other suppliers because of the operation of different meter inspection arrangements.

¹² SLC 32 - Reporting on performance

Stakeholder views

2.47. In general, most suppliers considered that all the relevant competition factors had been considered. One larger supplier argued that the inspection arrangements should consider other suppliers' obligations and the impact on their costs.

2.48. One larger supplier argued that they would be exposed to greater costs resulting from churn when acquiring BG's customers. As such, they suggested that the notice period for arranging a gas meter inspection should be extended from four to twelve months. However, another larger supplier argued that the transfer of costs between suppliers is unlikely to be material and noted that the obligation to maintain the two-year inspection cycle on churn only applies to gas meters.

2.49. The Association of Meter Operators (AMO) highlighted the differences between the nature of existing licence obligations for gas and electricity inspections and the impact on costs. They considered that it would be appropriate to consider harmonising these obligations as part of any future review.

Conclusions

2.50. We consider that competition will not be adversely affected by BG operating its alternative inspection arrangements for the three-year period of the consent. Our analysis suggests that the transfer of costs between suppliers resulting from this situation is unlikely to be material for two main reasons.

2.51. Firstly, only a small proportion of customers will transfer from BG with this 'liability' for the incoming supplier, with the proportion being determined by how BG chooses to sequence inspections as part of its five-year inspection cycle. Secondly, we consider that the impact is primarily to bring forward a cost for the incoming supplier, as opposed to creating a new cost, as in any event the meter will need to be inspected at some point by the incoming supplier.

2.52. We do not agree that it is appropriate to extend the notice period for organising gas meter inspections from four to twelve months. We consider that four months is an appropriate amount of time to organise an inspection. Furthermore, we are not clear how extending the duration in this way would affect the safety risk.

2.53. As noted earlier, we intend to review the framework for meter inspections more generally, in advance of the mass roll-out of smart meters. This will remove any concerns that suppliers may have in this regard, as the wider benefits will be available to all suppliers.

2.54. In the meantime, other suppliers are free to apply to us to operate their own alternative meter inspection arrangements. In considering such applications, we would take a consistent approach to that followed for BG's application.

Implications for networks

2.55. Gas and electricity network operators place some reliance on the two-yearly meter inspections. In particular, electricity Distribution Network Operators (DNOs) rely on the inspections to meet their obligations under the Electricity Safety, Quality and Continuity Regulations (ESQCR); and GDNs under the Gas Safety (Management) Regulations 1996 (GSMR). A reduction in the frequency of meter inspections may therefore have impacts on network businesses.

2.56. In our April consultation, we set out our view (based upon our previous information request and analysis) that we did not consider that there would be a material impact on the networks or on the gas Post Emergency Metering Arrangements (PEMS). We also said that we do not agree with the view of Independent Gas Transporters that granting consent would result in an increased level of emergency metering callouts. We wanted to test these views with industry prior to finalising our position.

Stakeholder views

2.57. GDNs generally agreed with our position, on the proviso that BG did not compromise safety performance and that theft continued to be detected. GDNs did not express concerns regarding any transfer of cost or impact on their regulatory obligations under the GSMR. Certain DNOs considered that they would still be required to carry out inspections to meet their obligations under the ESQCR.

Conclusion

2.58. We continue to consider that BG's alternative arrangements would not have a material impact on the operations of networks or their obligations. We have therefore not introduced any specific conditions relating to this issue within the consent.

2.59. Gas and electricity suppliers have an obligation to ensure that meters remain fit for purpose and are required to satisfy themselves that they are meeting the wider safety responsibilities and requirements set out in legislation. While DNOs and GDNs currently rely on the inspections to mitigate obligations under the ESQCR and GSMR respectively, it is for them to satisfy themselves that they have appropriate arrangements in place to meet such obligations.

Scope of application of the consent

2.60. BG has requested that the alternative meter inspection arrangements should apply to all of its meters. We considered that the impact on safety risks appeared less clear cut as the risks generated by a smart meter may be different to those for a traditional meter. While this discrepancy might not be material, we wanted to fully understand whether it was appropriate to include BG's smart meters.

2.61. In our April consultation, we sought views on whether BG's alternative inspection arrangements should also apply to the smart meters that they are rolling

out to their customers in increasing numbers.¹³ We also sought views on whether the factors we had considered in assessing the risks for traditional meters were appropriate for smart meters.

2.62. BG's original risk assessment focused mainly on traditional gas and electricity meters and did not explicitly cover their smart meters. To help us assess whether the consent should include smart meters, we requested that BG submit supplementary evidence to the HSE so that they could provide further advice to us on the associated safety risks.

Stakeholder views

2.63. Respondents largely agreed that the factors we considered should also apply to BG's smart meters. One larger supplier noted that smart meters are a new technology. As such, they were concerned that there is little empirical evidence of their performance and that the failure modes may not yet be fully understood.

Conclusion

2.64. We have decided to include BG's early smart meters within the scope of the consent. The HSE, having considered BG's smart meter risk assessment, confirmed they are content for BG's current smart meters (as defined by their specification) to be included within the scope of the consent. Specifically, the HSE's advice to Ofgem confirmed:

- They do not see any evidence to suggest that their previous advice is not applicable to BG's smart meters.
- They have no objection to the alternative arrangements including such meters, subject to BG complying with our proposed conditions.

2.65. The scope of the consent does not include other types of smart meter (eg meters that comply with DECC's SMETS¹⁴ or smart meters that BG acquires from other suppliers via churn). This is because BG has no significant experience of operating other types of smart meters, nor do they have sufficient data to calculate the safety risks under their risk-based approach. We have therefore decided that all meters out of scope of the consent must continue to be inspected every two years (see paragraph 2.22 for treatment of in scope meters that are acquired via churn).

2.66. BG's theft detection arrangements do not distinguish between meter types, so we would not expect theft detection to be any less effective for smart meters. Indeed, it is plausible that the data provided by BG's smart meters will make them more effective in helping to detect theft.

¹³ BG's smart meter specification PR_smart_Part1_GenReq Final V4.0 2010 03 29, Product Requirements for Smart Metering Part 1: General System Architecture, March 2010. This can be found [here](#).

¹⁴ Further information on DECC's SMETS can be found [here](#).

3. Next Steps

Chapter Summary

In this Chapter we discuss the next steps that we propose to take with respect to monitoring BG's performance and compliance with the conditions of the consent. We also set out our intention to conduct a more general review of the regulatory framework for meter inspections in the light of the smart meter roll-out.

Monitoring and reporting

3.1. It is important to monitor how BG's new meter inspection arrangements work in practice, particularly as this is the first consent of its kind. We will monitor BG's performance against the conditions of consent and, more generally, the customer experience of the new arrangements.

3.2. To help Ofgem monitor BG's performance, they will submit a quarterly report to us on key performance indicator (KPIs) in four specific areas:

- Safety
- Vulnerable customers
- Billing accuracy
- Customer experience.

3.3. **Safety:** Central to BG's approach is reducing safety risk by detecting theft. We will therefore monitor how effective BG's arrangements are at detecting theft. We will monitor the actual number of cases of theft detected for both gas and electricity against the target levels set out under Condition D.

3.4. We will monitor the number of meters that BG acquires as a result of customer churn and the number of meters that are inspected. This will enable us to assess compliance with Condition E.

3.5. We will share any safety concerns arising from this information with the HSE.

3.6. **Vulnerable customers:** A key measure that we have identified is the number of customers that BG has recorded on its PSR. We consider that BG can do better in this area and therefore we will monitor the number of customers on BG's PSR, the number of these customers' meters inspected and, in doing so, the number of warrants obtained.

3.7. **Billing accuracy:** We are aware that an increasing number of BG's customers are opting to provide meter reads. To ensure that BG is taking appropriate steps to raise awareness and utilise a range of read channels we will monitor the trends for estimated reads, actual reads and customer reads.

3.8. **Customer experience:** We have set BG the challenge of ensuring that the customer experience is not compromised as a result of BG operating their alternative arrangements. In addition to the above we will monitor the general effectiveness. We are also monitoring BG's Social Obligations separately¹⁵, which will help Ofgem consider BG's performance in the round. This reporting provides a summary of domestic suppliers' performance in relation to debt, disconnection, prepayment meters and services for consumers in vulnerable positions.

Review of regulatory framework for meter inspections

3.9. Smart meters are already being rolled out by some suppliers and the GB-wide roll-out is due to be completed by 2019. Smart meters will change how the market operates, including by enabling various industry functions to be undertaken in a more cost-effective manner. DECC's impact assessment¹⁶ for the smart meter roll-out estimates approximately £3.2bn of benefits associated with avoided site visits (eg for meter inspections). The existing meter inspection obligations may well not be fit for purpose in the context of smart meters and therefore may need amending to facilitate the benefits identified.

3.10. Given the drivers for change, we are committed to reviewing the current meter inspection obligations. Our intention is to review the existing meter inspection arrangements, with a view to putting in place new industry-wide arrangements in 2015, to coincide with the start of the mass roll-out of smart meters. We are mindful of the level of resource that BG, HSE and Ofgem has committed to considering the consent application and are keen to maintain momentum in developing a regulatory framework suitable for smart meters.

3.11. The scope of the review is likely to include both traditional and smart gas and electricity meters. Developing a new framework will require input and evidence from the industry to take this forward. The data that BG will be providing as a part of the consent will be a useful part of our evidence base. We will also continue to work closely with the HSE in developing our thinking.

¹⁵ The Domestic suppliers' social obligations: 2011 annual report can be found [here](#).

¹⁶ DECC's Impact Assessment can be found [here](#).

Appendices

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Appendix 1 – Consultation responses

3.12. Our April 2012 consultation sought views from interested parties on our proposal to introduce a new British Gas meter inspection arrangements. A total of 20 responses were received. The following table shows the list of parties who responded to our consultation.

List of respondents

	Respondents
1	Association of Meter Operators
2	British Gas
3	EDF Energy
4	Elexon
5	Energy UK
6	Eon
7	National Grid
8	Northern Powergrid
9	Npower
10	S P Energy Networks
11	Scottish Power
12	SSE
13	Wales & West Utility
14-17	4 individual responses
17-20	3 confidential responses

3.13. Responses received by Ofgem which were not marked as being confidential have been published on Ofgem's website (www.ofgem.gov.uk). Copies of non-confidential responses are also available from Ofgem's library.

Summary of responses

3.14. Responses received to the questions raised in our April consultation are summarised below. Comments that were not related to the proposed alternative meter inspection arrangements are not captured in this summary. For further information, please refer to the responses on our website.

Chapter 2: Our Assessment

3.15. Responses to the initial consultation were generally varied with regards the BG derogation application. Those supportive included large Suppliers and Networks. One of the industry bodies held a neutral position whilst another rejected the proposal.

One of the large suppliers requested that the alternative arrangements be deferred until smart meters were rolled out.

Robustness of proposed framework for proposal

3.16. Respondents generally agreed that the main factors had been considered to provide a robust framework for assessing the alternative inspection arrangements.

3.17. The Association of Meter Operators (AMO) argued that Ofgem had not addressed the difference between societal and individual safety risks resulting from BG's metering portfolio.

3.18. Several suppliers argued that any wider review should take into consideration other impacts, such suppliers' obligations and costs.

3.19. One energy supplier was concerned that the proposal would introduce competition into health and safety area and considered that this has not been addressed within the consultation.

Other relevant factors

3.20. Suppliers were in agreement and emphasised there are no other factors Ofgem needed to consider with respect to smart meter inspection.

3.21. The AMO stated the current licence condition already includes advanced meters and that it is not clear whether Ofgem's proposal covers domestic and non domestic meters.

3.22. A supplier stated that suppliers will need to consider how the ESQCR obligations will be managed post smart roll out, while another supplier noted there is little experience of long term safety performance of smart meters and difficult to assess the long term safety performance.

BG's proposal and consumer protection

3.23. There was a broad consensus by suppliers, trade association and an individual respondent, agreeing that Ofgem's assessment of BG's proposal provided adequate safeguards for customers.

3.24. One of the large supplier claimed the proposal offered adequate protection to customers' in particular around safety and efficiency.

3.25. However, one of the large suppliers was more cautious commenting it is inappropriate to comment on the BG proposal as the consultation provides only background supporting information.

Relevant factors for competition

3.26. A number of respondents including large suppliers considered that all the relevant competition factors had been considered, one of the other large suppliers expressed a concern that BG will not pass on the cost savings to its customers.

3.27. One of the large suppliers suggested that the transfer of costs between suppliers' is unlikely to be material. The AMO suggested that the policy between gas and electricity obligations should be harmonised as they currently have asymmetric reporting characteristics.

Chapter 3: Alternative Framework

Reasonable steps to inspect meter every five years

3.28. Respondent's views were mixed with one of the large suppliers commenting that moving away from the current two year inspection frequency should be based upon on risk profiles. One of the other large suppliers commented that the inspection frequency should be set to five years to fall into line with the assumptions set out in DECC business case.

Reasonable steps to inspect vulnerable customers' meters every two years

3.29. The issue of specific risk factors was raised by a meter operator, in particular for the non domestic market, requesting that site specific risk assessment should be used to determine risk factors which may determine an inspection interval less than two years.

Reasonable steps to obtain a valid meter reading

3.30. One of the large suppliers was of the view that there are other commercial drivers on supplier's to obtain meter reads for accurate customer billing.

3.31. In relation to theft, a meter operator stated that meter reading obligations provide a deterrent for gas theft and that a longer inspection period may reduce this effect.

3.32. On a more general note a supplier stated that obtaining a valid meter read every two years would provide a sufficient level of protection for customers' ensuring accurate billing and settlement accuracy.

3.33. Furthermore, a gas distribution network commented that the condition should reflect the UNC Transportation Principal Document M 3.17 which requires shippers to read domestic meters every year and customers with supply points with an Annual Quantity of over 293,000kWh each month.

Theft detection at current levels

3.34. Suppliers unanimously agreed that there can be no compromise regarding theft detection within the derogation. They highlighted that BG's commitment to undertake theft detection activity is paramount to mitigating safety risk. Another large supplier stated that customers would be appropriately protected as long as BG meet the prescriptive levels of theft in accordance with their risk assessment. One of the large suppliers stated that it is not clear how a "target level" would be set under the future derogation proposals.

Two-year meter inspection through churn

3.35. Several large suppliers do not believe that there is evidence to demonstrate that customers who churn pose a higher level of risk than those who do not. One of the meter operators did not share this view, and stated that unless the risk had been assessed it would be difficult to measure and mitigate risk. Furthermore, they highlighted that BG's evidence did not provided details of how their asset management and data mining strategy would remove a greater level of safety risk.

Inspect meters at every available opportunity

3.36. A meter operator and small supplier agreed that this is an appropriate condition for meter inspections; however, another respondent stated that it is important that the engineer carrying out the inspection is competent to do so.

Documentary records of systems and processes

3.37. A meter operator suggested that BG should allow transparency of their processes to the industry allowing the industry to jointly develop a site-specific risk based approach.

3.38. In relation to understanding asset health a supplier noted that maintaining documentary records of systems and processes is vital in allowing thorough analysis of assets on a risk based principle.

Appropriateness of time-limiting consent

3.39. An individual meter operator and several large suppliers agree that there should be a time limit or some form of sunset clause, with BG stating a derogation of 5 years not 3 years would be appropriate.

3.40. One respondent noted the proposal should set a review point in order to establish whether the proposal has delivered the intended benefits.

Definition of vulnerable customers

3.41. There was no consensus on the most appropriate definition the industry should use for customer vulnerability. One of the large suppliers considered that the only logical and appropriate definition of vulnerable customer for the purposes of the derogation is that defined within the appropriate Supply Licence under the Priority Services Register. This also enables clear alignment with other licence obligations associated with vulnerable customers.

3.42. Others respondents were neutral as to which was the most appropriate definition to use. A meter operator did not show a strong preference for any definition (PSR or ERA), but expects Ofgem's definition to have transparent governance.

3.43. Several large supplier noted that it is difficult for suppliers to determine whether a customer is vulnerable or not unless the customer notifies their respective supplier. The definition set out within the Safety Net is for the purpose of indebtedness and that the process of establishing a customer's eligibility involves several steps of communication, one of which involves a face to face interview. The supplier argued that it would be disproportionate and inefficient to require the same steps / definition to be applied for the purpose of BG's consent.

Appropriateness of linking theft detected to conditions

3.44. BG argued that the key factor here should be the volume of resources committed to engaging theft detection rather than the volume of theft detected itself. Therefore the setting of performance targets should not be utilised as a measure of success of any derogated inspection arrangements.

3.45. One respondent noted the importance of linking the levels of theft detected to the conditions given BG's proposal is based on risk assessment to inspections.

3.46. Several suppliers argued that it would be inappropriate at this time to link levels of theft with the conditions given that neither the industry nor Ofgem have been able to establish the value of gas theft.

Monitoring risk management systems

3.47. A smaller supplier emphasised the need for a holistic approach to asset risk management. A meter operator called for this process to be transparent so that it could be challenged where appropriate.

3.48. Suppliers were unanimous in that Ofgem should consider undertaking an audit of BG's systems and processes to ensure risk management is being undertaken.

3.49. Another respondent noted an industry wide approach should be implemented and adopted which should include periodic reviews.

Other data requests for annual reporting

3.3. BG agreed that it should report upon the KPI's associated with the conditions of consent. One large supplier stated if an industry wide approach is implemented it will be important to determine which factors affect risk, to enable an effective and targeted scheme to be developed.

3.50. Suppliers were united in the view that Ofgem should collect data on an annual basis to monitor BG's effectiveness.

Review of the regulatory framework for smart meters

3.51. Suppliers along with a meter operator agreed that there should be a review of the regulatory framework for smart meter inspections. Respondents commented that it is essential that the existing obligations are replaced with a more enduring solution to enable the benefits set out in the DECC business case to be realised.

3.52. The respondents unanimously agreed that safety should not be compromised and that robust arrangements will be required for smart metering.

3.53. Another energy supplier noted that there is not sufficient data or experience of long term safety performance of smart meters in GB. Other large suppliers recognised that BG's alternative arrangements will provide a useful evidence base for developing alternative arrangements that all suppliers can benefit from.

Appendix 2 – Glossary

A

Advanced Domestic Meter

Gas: means a Gas Meter that, either on its own or with an ancillary device:

- (a) provides measured gas consumption data for multiple time periods and is able to provide such data for at least daily periods;
- (b) is able to provide the licensee with remote access to such data; and
- (c) is not an Electronic Consumption Data Display.

Electricity: means an Electricity Meter that, either on its own or with an ancillary device:

- (a) provides measured electricity consumption data for multiple time periods and is able to provide such data for at least daily periods;
- (b) is able to provide the licensee with remote access to such data; and
- (c) is not an Electronic Consumption Data Display.

S

Smart meter

A meter that meets British Gas's Smart meters specification as defined in their risk assessment. This does not include the smart meters as defined in DECC's SMETS.

T

Traditional meter

A gas or electricity meter as defined in the appropriate Act or licence.

Appendix 3 – Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Do you have any further comments?

1.2. Please send your comments to:

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