



Reforming suppliers' meter inspection obligations – final proposals

Consultation

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Overview:

Gas and electricity suppliers have a licence obligation to inspect their customers' meters at least every two years, unless we consent to other arrangements.

On 23 July 2015 we consulted on proposals to repeal the two-yearly meter inspection licence conditions.

We have reviewed the consultation responses and informal responses to our proposals. We consider that repealing the two-yearly meter inspection licence conditions in their entirety from the gas and electricity supply licences remains the most proportionate and effective option for meeting the policy objectives and consumer outcomes.

In this document, we set out our final policy proposals. We describe the effect of the proposals, our reasoning (including addressing stakeholders' views), and how we intend to action the proposals. The proposed modifications to licence conditions are set out for statutory consultation in the appendix to this document (Appendices 1-4).

Context

The gas and electricity supply licences contain obligations for suppliers in relation to two-yearly meter inspections. The scope of the inspection requirements covers safety checks, theft detection, and meter reading frequency.

We reviewed these obligations as part of our Supply Licence Review in 2006. During this review, we considered that the current obligations may be too prescriptive. In consultation with the Health and Safety Executive (HSE), we did not remove the obligations at that time. Instead, we introduced an express provision in the meter inspection licence obligations stating that we can consent to alternative arrangements.

In 2012, we received a request from British Gas to consent to operate alternative gas and electricity meter inspection arrangements. We considered British Gas' risk assessment and sought advice from the HSE in deciding to consent.

When we announced our decision to allow British Gas to operate alternative meter inspection arrangements, we also signalled our intention to conduct a broader review of the meter inspections framework in the context of the rollout of smart meters. We wanted to ensure that our regulatory requirements were proportionate and necessary to protect consumers' interests.

Since we granted British Gas consent to operate alternative meter inspection arrangements, the HSE has provided further advice on the appropriateness of the meter inspection licence condition for addressing health and safety risks. We have also introduced new licence obligations for gas and electricity suppliers relating to meter reading frequency and theft detection activities.

The rollout of smart meters will reduce the need for suppliers to visit consumer premises to read meters as the meters will be capable of sending consumption information wirelessly to suppliers. The Department of Energy and Climate Change's (DECC) business case identified benefits associated with avoided site visits for inspecting smart meters¹. DECC established the Meter Inspections Subgroup in late 2014 under the auspices of its Smart Meter Delivery Group to consider options for establishing an appropriate metering inspection framework in view of the smart meter rollout.

In late 2014, we published our corporate strategy² which commits to us to regulating in a way that minimises the direct and indirect costs imposed on consumers and industry. The associated Forward Work Programme³ set out an ambition for principles-based regulation to replace the more detailed and prescriptive standards currently used over time. Our review of the meter inspection licence conditions is in line with our corporate strategy.

¹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276656/smart_meter_roll_out_for_the_domestic_and_small_and_medium_and_non_domestic_sectors.pdf

² <https://www.ofgem.gov.uk/ofgem-publications/92187/corporatestrategy.pdf>

³ <https://www.ofgem.gov.uk/ofgem-publications/94196/forwardworkprogramme2015-1625march2015.pdf>

Associated documents

- Consultation on reforming suppliers' meter inspection obligations: https://www.ofgem.gov.uk/sites/default/files/docs/2015/07/reforming_suppliers_meter_inspection_obligations_final_0.pdf
- Consultation on British Gas's request for changes to its meter inspection licence obligations: <https://www.ofgem.gov.uk/publications-and-updates/british-gas-request-changes-its-meter-inspection-licence-obligations-0>
- Decision on British Gas's request for changes to its meter inspection licence obligations: <https://www.ofgem.gov.uk/publications-and-updates/british-gas-request-changes-its-meter-inspection-licence-obligations>
- Supply Licence Review - Final Proposals, Ofgem, June 2007 (128/07): <https://www.ofgem.gov.uk/ofgem-publications/41916/british-gas-request-changes-its-meter-inspection-licence-obligations.pdf>
- Tackling Electricity Theft – the way forward: <https://www.ofgem.gov.uk/publications-and-updates/tackling-electricity-theft-%E2%80%93-way-forward-0>

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Executive Summary

We have decided to reform the gas and electricity supply licences. Gas and electricity suppliers have a licence obligation⁴ to inspect their customers' meters every two years unless we consent otherwise. Suppliers must

- check for evidence of deterioration that might affect the safety or proper functioning of the meter,
- check for evidence of tampering or theft, and
- take a physical meter reading to ensure accurate customer bills.

In July 2015 we consulted on our proposal to repeal the two-yearly meter inspection licence conditions for all meter types. Our position was that health and safety obligations in legislation and industry codes, and recently enhanced theft detection and billing accuracy supply licence obligations, are more effective and proportionate ways to achieve the desired policy objectives of meter inspections. We expected repealing the licence conditions would improve competition in the retail energy market. We also thought that repeal would have the greatest potential to enable cost savings from smart meters.

We have considered stakeholders' responses, and our position remains the same. Suppliers must continue to maintain metering safety on a risk basis, to comply with other health and safety and theft detection obligations.

We appreciate that industry parties may wish to develop a common understanding of the risk indicators in metering safety. They may also wish to share risk assessment data on metering equipment condition, and notes of actions taken during a site visit. This could facilitate network asset management and change of supplier by informing different industry parties' risk-assessments. The Meter Inspections Subgroup (MISG) initiated these discussions and their preliminary work could prove a useful platform for progressing further industry thinking.

We set out our final policy proposals in this document. We set out our proposed modifications to licence conditions for statutory consultation in Appendices 1-4. These consultations will be open for 28 days. Subject to the responses we receive, we plan to publish decision notices to enact the licence modifications early next year. The modifications would come into effect on 1 April 2016, subject to appeals made within 56 days from the date we publish the decision notices.

⁴ Gas Supply Standard Licence Conditions (SLCs) 12.8-12.16 (<https://epr.ofgem.gov.uk//Content/Documents/Gas%20supply%20standard%20licence%20conditions%20consolidated%20-%20Current%20Version.pdf>); and Electricity Supply SLCs 12.14-12.16 (<https://epr.ofgem.gov.uk//Content/Documents/Electricity%20Supply%20Standard%20Licence%20Conditions%20Consolidated%20-%20Current%20Version.pdf>).

1. Introduction

Chapter Summary: We reviewed the relevance and value of suppliers' two-yearly meter inspection licence obligations to protecting and promoting consumers' interests. Our review was driven by changes to the regulatory landscape relating to theft detection and billing accuracy, our collaboration with the HSE, and improvements in metering technology and evolving energy sector competition. Our preferred reform option was to remove the licence obligations in their entirety, and we consulted on this in July. We are now setting out our final policy proposals and statutory consultation on licence modifications.

The meter inspection arrangements

1.1. The Gas Supply Standard Licence Condition (SLC) and Electricity Supply SLC 12 place an obligation on gas suppliers⁵ and electricity suppliers⁶ respectively to take all reasonable steps to inspect their customers' meters at least once every two years unless the Authority⁷ otherwise consents.

1.2. We reviewed these obligations as part of the Supply Licence Review in 2006 during where we considered that the current obligations may be overly prescriptive. We therefore inserted the explicit flexibility for the Authority to consent to alternative arrangements into the meter inspection licence conditions.

1.3. The two-yearly metering inspection licence obligations in both gas and electricity relate to health and safety protection, theft detection, and meter reading frequency for the purposes of billing accuracy.

1.4. As part of the gas metering inspection the supplier is required to inspect the meter and associated installation for evidence of tampering or theft, and look for evidence of deterioration, which might affect its safety or proper functioning. The supplier is also required to take a meter reading whilst inspecting the meter.

1.5. The gas metering inspection requirements apply to all meters. For gas suppliers, 'all reasonable steps' expressly includes trying to obtain a warrant⁸. When

⁵ Gas supply SLCs 12.8-12.16 Inspection of Gas Meters

<https://epr.ofgem.gov.uk/Content/Documents/Gas%20supply%20standard%20licence%20conditions%20consolidated%20-%20Current%20Version.pdf>

⁶ Electricity supply SLCs 12.14-12.16 Inspection of Electricity Meters

<https://epr.ofgem.gov.uk/Content/Documents/Electricity%20Supply%20Standard%20Licence%20Conditions%20Consolidated%20-%20Current%20Version.pdf>

⁷ The Office of the Gas and Electricity Markets Authority (Ofgem) supports the Gas and Electricity Markets Authority ('the Authority') in its day-to-day work (in this document, 'we' and 'us' are used to refer to both 'Ofgem' and 'Authority').

⁸ Under the Rights of Entry (Gas and Electricity Boards) Act 1954:

<http://www.legislation.gov.uk/ukpga/Eliz2/2-3/21> (See gas supply SLC 12.10 and Regulation 18 of the Gas Act 1986: <http://www.legislation.gov.uk/ukpga/1986/44/section/18>).

a gas customer switches supplier, the two-yearly meter inspection obligation time-frame transfers to the new gas supplier, subject to a four month grace period⁹.

1.6. The scope of the electricity metering inspection requires the supplier to take a meter reading and carry out a visual inspection of any metering equipment to assess whether there has been damage to the metering equipment or to any electrical plant or electric line. The inspection checks for any interference that may prevent the meter from registering the quantity of electricity supplied; or deterioration that may affect its safety or proper functioning.

1.7. The electricity metering inspection requirements apply to meters capable of recording non-half hourly consumption only¹⁰. This means that the current licence requirements do not apply to smart and advanced electricity meters, and will become redundant for the vast majority of consumers as smart meters are rolled out. For electricity suppliers, the two-yearly meter inspection obligation also resets when a consumer switches supplier.

Our review

1.8. We reviewed whether the licence obligations were necessary and efficient in achieving the policy objectives of meter inspections and broader consumer outcomes. Our review was driven by:

- changes to energy regulation, which introduced specific licence conditions targeting some of the same policy objectives as the meter inspection licence conditions;
- collaboration with the Health and Safety Executive (HSE) in identifying the existing safety obligations within health and safety legislation which overlap with the meter inspection licence conditions;
- a recognition that to date only one supplier, British Gas, has requested and been granted consent to operate alternative meter inspection arrangements;
- the onset of the smart meter rollout which has the potential to reduce site visits and improve all of the policy objectives of meter inspections;
- stakeholder engagement, including involvement in the meter inspections subgroup (MISG) established by DECC under the auspices of the Smart Metering Delivery Group to recommend options for establishing an appropriate metering inspection framework in view of the smart meter rollout.

1.9. We considered a range of reform options from the 'do nothing' option, to preserving the status quo arrangements by extending the meter inspection licence

⁹ Gas Supply SLC 12.9

¹⁰ This is presumed to be a proxy for domestic consumers.

conditions to cover half-hourly electricity meters, to changing the minimum inspection interval to five years, and to repealing the requirements altogether.

1.10. Our approach to assessing the impacts of policy change followed the approach set out in the consultation and decision on the British Gas application to operate alternative meter inspection arrangements. This identified three policy objectives of meter inspection licence conditions: health and safety; theft detection; and billing accuracy. It also identified other broader consumer outcomes which were: costs to consumers; impacts on other industry parties; and competition impacts.

1.11. We assessed the reform options against these identified impacts. We consulted on reform options to extend the minimum inspection interval to five years, and to repeal the licence conditions. We asked for views on our assessment of the need for reform, our identified impacts, our assessment of impacts, and our implementation proposals. Our preferred option was to repeal the licence conditions in their entirety to take effect from 1 April 2016.

This document

1.12. We set out our final proposals in this document. We describe the effect of our proposals, our reasoning (including addressing stakeholder views), and how we intend to action the proposals. Our proposed modifications to licence conditions are set out for statutory consultation in the appendix to this document (Appendices 1-4).

1.13. This document and those appendices constitute notices of proposed modifications to the standard conditions of the gas and electricity supply licences, and the standard and standard special conditions of the gas transporter licences. These consultations will be open for 28 days and will close on 15 December 2015.

Next steps

1.14. Subject to the responses we receive, we plan to publish a decision notice to proceed with the modifications early next year. The modifications would come into effect on 1st April 2016 subject to appeals submitted within 56 days of publication of the decision notices. Application to the Competition and Markets Authority for permission to appeal must be made within 20 working days of the day after the date of the decision notices.

1.15. Please address any questions about this consultation to Tom Handysides, Senior Policy Manager (Tom.Handysides@ofgem.gov.uk, 020 7901 7289). Responses should be sent to smartermarkets@ofgem.gov.uk, copying Tom.Handysides@ofgem.gov.uk, or by post addressed to the Smarter Metering team using the address below.

Smarter Metering
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London

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1.16. We will publish any responses we receive on our website, except those marked as confidential. We intend to publish our final decision notice in early 2016.

1.17. We have published the non-confidential responses to our July 2015 consultation on our website¹¹.

¹¹ <https://www.ofgem.gov.uk/publications-and-updates/reforming-suppliers-meter-inspection-obligations>

2. Final proposals

Chapter Summary: We have considered the responses to our July consultation. Respondents broadly supported our policy proposals. We have reviewed them in light of specific challenges that respondents raised. Our final proposals are to repeal the two-yearly meter inspection supply licence conditions with effect from 1 April 2016. This is because other regulations and policies, including safety obligations and recently enhanced theft detection and billing accuracy obligations, offer more effective and proportionate protections to consumers.

Our final policy proposals

2.1. We propose to repeal the meter inspection supply standard licence conditions (SLCs) 12.8-12.16 in gas and 12.14-12.16 in electricity in their entirety. We consider that all suppliers should face the same meter inspection regulatory obligations, and that other requirements in legislation and licence conditions are more appropriate for achieving the objectives of the meter inspection licence conditions for all meter types. We did not receive any views or evidence to convince us that we shouldn't repeal these obligations.

2.2. We propose to retain the current licence requirements for gas suppliers to pass on meter inspection dates to the relevant gas shipper for transmission to the gas transporter. We also propose to retain the current licence requirements for independent gas transporters and gas transporters to record the dates of last gas meter inspection passed on to them by suppliers or shippers.

2.3. In order to retain the inspection recording requirements, we must remove the references to SLC 12 in the relevant licence conditions. We must also ensure that there is some common understanding of which inspections qualify for the date recording requirement. We propose to clarify that the relevant inspections for the recording requirement are inspections which relate to the safety and proper working order of the meter.

2.4. Our proposed licence modifications will take effect on 1 April 2016 subject to appeals submitted within 56 days from the date we publish decision notices in response to this consultation.

Our views on the July 2015 consultation responses

2.5. In the July consultation, we consulted on two reform options. These were: option A - to extend the minimum inspection interval to five years, and option B - to repeal the licence conditions altogether. Our preferred option was option B.

2.6. We received 25 responses from a wide range of stakeholders. Most respondents favoured our preferred reform option to repeal the licence conditions altogether.

2.7. Some respondents were in favour of repeal for smart meters but thought the existing meter inspection arrangements should apply for other meter types. One respondent in particular disagreed with our preferred reform option to repeal the licence conditions for any meter type.

2.8. Some respondents agreed with our policy proposal in principle but raised issues with our proposed implementation date and our role in facilitating reform of industry practices.

2.9. Below we summarise responses to particular consultation questions and our views on them.

Assessment of the need for reform

2.10. In the July consultation, we asked respondents whether they agreed with our assessment of the need to reform suppliers' meter inspection obligations.

2.11. All but one of the respondents supported our assessment of the drivers for reform. Respondents placed different weights on each of the drivers for review we identified in our consultation. We outline their views on the drivers for reform below.

Health and safety regulation

Respondents' views

2.12. A few respondents noted that industry parties are obliged by existing requirements in health and safety legislation to ensure meter safety. They supported the HSE's advice that these existing requirements go beyond the backstop static meter inspection requirements in SLC 12 in requiring a risk-based approach to health and safety.

2.13. One respondent argued that reliance on health and safety legislation alone would be inadequate for ensuring metering safety if the licence conditions are repealed. This respondent thought that industry codes should continue to oblige meter operators to specifically check for damage.

2.14. Another respondent recommended that we publish the latest advice from the HSE supporting repeal of the meter inspection licence conditions.

Our response

2.15. We think it is sensible to remove prescriptive licence conditions where the policy objective is already served by other legal requirements. This is consistent with our objective to only regulate where it is proportionate and necessary. There are existing obligations in health and safety legislation that require ongoing metering safety maintenance by persons of appropriate skill and experience, and are outcome-based. This body of legislation includes the Electricity at Work Regulations 1989

(EAWR)¹² and the Gas Safety (Installation and Use) Regulations 1998 (GSIUR)¹³, and the general provisions of the primary Health and Safety at Work etc Act 1974 (HSWA)¹⁴.

2.16. There are also requirements to ensure gas metering equipment safety maintenance by persons of appropriate skill and training in the Code of Practice for Gas Meter Asset Managers (MAMCoP)¹⁵ which is backed by licence conditions. Suppliers are also required to ensure electricity metering equipment safety in the Electricity Act 1989¹⁶.

2.17. These obligations address the safety policy objective of the meter inspection licence conditions more effectively than the visual inspection requirements in SLC 12. This is because metering safety risks are likely to depend on characteristics of the asset, site and customer and may change over time. Ongoing meter safety is therefore best addressed by a risk-based approach which is already required by health and safety legislation.

2.18. We have recognised the requirements on meter operators to carry out checks and to report any hazardous situations found in the MAMCoP and the Meter Operation Code of Practice Agreement (MOCO PA). These requirements are outputs-focused and we do not consider them to be inconsistent with taking a risk-based approach to safety. As such, we have not suggested that these requirements should be amended or removed.

2.19. We set out the HSE's views in our July consultation, having developed our policy proposals in discussion with the HSE in relation to health and safety matters. The HSE has participated in the MISG which had a broad membership, and has offered to engage with any industry parties that have concerns related to their compliance with health and safety legislation.

Competition context

Respondents' views

2.20. Five respondents said that all suppliers should face the same regulatory obligations, citing specifically that British Gas' consent to operate alternative meter inspection arrangements ("the BG Consent") has given British Gas a competitive advantage. The other respondents did not mention this point.

Our response

¹² For example, Regulations 4 and 16 <http://www.hse.gov.uk/pubns/priced/hsr25.pdf>

¹³ For example, Regulations 3 and 5 <http://www.hse.gov.uk/pubns/priced/I56.pdf>

¹⁴ For example, Regulations 2 and 3

<http://www.legislation.gov.uk/ukpga/1974/37/part/I/crossheading/general-duties>

¹⁵ Conditions 3.7 and 12.2-12.3 <http://www.spaa.co.uk/upload/MAMCoP/MAMCoP%204.0.pdf>

¹⁶ Regulation 10.2 in Schedule 7 <http://www.legislation.gov.uk/ukpga/1989/29/contents>

2.21. We have reviewed the current relevance of the meter inspection licence conditions in the context of changes to the landscape of energy regulation, improvements in metering technology, and our ambition of moving away from prescriptive licence conditions where they are unnecessary. We recognised the potential competition impacts of the BG Consent in our July consultation¹⁷.

2.22. We agree with the principle that all suppliers should face the same regulatory meter inspection requirements because the policy objectives of the current licence conditions are met by other requirements for all suppliers. Reforming the obligations for all suppliers should also have a positive impact on competition compared to the status quo by addressing the current imbalance between British Gas' meter inspection arrangements and other suppliers' licence obligations. Our preferred policy option to repeal the licence conditions may also improve competition by allowing suppliers to consider the most efficient inspection practices for their businesses.

Smart meter rollout

Respondents' views

2.23. Six respondents agreed that smart meters present an opportunity to reduce site visits while improving billing accuracy, safety risk management, and theft detection. One respondent also noted that the electricity meter inspection SLCs apply to non-half-hourly meters and would become redundant as more smart meters are rolled out, while half-hourly meter inspections are covered by the Balancing and Settlement Code Procedures (BSCPs). These respondents agreed that the rollout was a strong driver for reviewing whether the meter inspection SLCs are fit for purpose.

2.24. One respondent noted that smart metering technology might lead to theft activity targeting other parts of the system, for example distribution network equipment.

Our response

2.25. We consider the smart meter rollout as one driver for reviewing suppliers' meter inspection obligations as it has the potential to facilitate more effective and efficient achievement of the policy objectives. For example, smart meters are expected to significantly improve billing accuracy. However, as discussed further below, we do not consider smart meters to be a prerequisite for reform given the other drivers for review that we have identified.

2.26. We agree that the nature of theft may change after the smart meter rollout. However, we think that potential changes to the nature of theft support the

¹⁷ See Chapter 1 (paragraphs 1.15-1.22) and Appendix 1 (paragraphs 1.149 – 1.167)
https://www.ofgem.gov.uk/sites/default/files/docs/2015/07/reforming_suppliers_meter_inspection_obligations_final_0.pdf

argument that static meter inspections for all meters are unlikely to be the most effective and efficient route for deterring and detecting theft.

2.27. Furthermore, access to detailed consumption data which smart meters can provide should still help suppliers to identify unusual consumption patterns which could be caused by more sophisticated forms of theft. This should prompt suppliers to act on the grounds of safety risks and/or revenue protection.

Changes in energy regulation

Respondents' views

2.28. Some respondents agreed that the new licence obligations related to billing accuracy (SLC 21B) and theft detection target the same policy objectives as the meter inspection licence conditions. They agreed these other licence conditions were more targeted and appropriate for achieving billing accuracy and theft detection policy objectives than the static meter inspection licence conditions. These respondents supported our initiative to streamline regulatory requirements.

2.29. One respondent wholly disagreed with our assessment of the need to reform. This respondent felt that the only way to ensure safety is to mandate a physical supplier meter read. Two other respondents disagreed in particular with the need to reform the requirements for traditional meters and smart meters operating in 'dumb' mode due to the new billing accuracy and theft detection licence conditions. These respondents held the view that these licence conditions offered insufficient mitigation against the risk of theft (and associated safety hazards), and billing inaccuracy for traditional meters. Our responses to these concerns are explored further in the sections below.

Summary of our response

2.30. On balance, we consider respondents' views provide a broad level of support for our decision to review suppliers' meter inspection obligations. We address the concerns that some respondents raised in the sections below, and explain our final policy proposal to repeal the two-yearly meter inspection licence conditions.

Scope of review and the reform options

2.31. We asked respondents whether they agreed with our scope of review and whether we had focused on the right reform options.

2.32. Respondents generally agreed with the scope of our review and the reform options we have focused on. With regards to the scope of our review, all agreed that all suppliers should face the same meter inspection obligations. However, there was some debate about other aspects of the scope of our review and corresponding options for reform. We discuss this below.

Meter type

Respondents' views

2.33. Most respondents agreed the reform options should cover all meter types. Respondents held this view because they considered the risk indicators to be the same across meter types. One respondent noted that where the risks themselves differ across meter types, these should be reflected in the design of suppliers' processes. So, according to this respondent, reviewing the appropriateness of the current static meter inspection licence obligations is appropriate for all meter types.

2.34. Three respondents felt that traditional meters should be excluded from the scope of review, and the reform options should apply to smart meters only. The respondents raised this challenge because they consider the more limited functionality of traditional meters to justify mandated minimum two-yearly inspections to protect consumers against safety, theft and billing accuracy risks.

2.35. One respondent argued that the current meter inspection licence requirements provide backstop protections for traditionally metered consumers against inaccurate consumer bills through requiring physical reads by trained meter operators at least once every two years.

2.36. Other respondents raised this challenge because traditional meters do not have sophisticated anti-tamper devices fitted to alert suppliers to potential incidences of theft and related safety hazards. One respondent raised this theft risk as a challenge for advanced meters.

Our response

2.37. Our view is that the existing health and safety requirements in legislation and industry codes, and the billing accuracy and theft detection licence obligations place existing obligations on suppliers to meet the policy objectives of the meter inspection licence conditions for traditional meters and AMR meters.

2.38. Moreover, we think these other requirements achieve the policy objectives in a more effective and efficient way. For theft detection and safety, the other licence requirements (SLC 12A) and legislation go further than the meter inspection licence conditions and also oblige suppliers to take a risk-based and data-driven approach. This facilitates more efficient and effective risk-management. For billing accuracy, the other licence conditions (SLC 21B.4 and SLC 21B.5) also go further than the meter inspection licence conditions, and also allow suppliers to deliver the meter reading output in a flexible manner.

2.39. Smart meters will make it easier and cheaper to meet these objectives through remote reads, access to more detailed consumption data, and anti-tamper devices. However, they are not a pre-requisite for reform.

2.40. We agree the mass meter exchange and site visits that will take place represent an opportunity for industry parties to collect data on their meter assets in order to inform risk-assessments. However, we are not proposing to introduce new requirements on suppliers or network companies through our policy proposals, nor are we removing the requirement for suppliers to inspect meters of any type. We are simply proposing to remove a regulatory backstop requirement on meter inspection intervals. Therefore, we retain the view that the appropriate scope for our review covers all meter types.

Fuels

Respondents' views

2.41. No respondents disagreed with our view that electricity and gas meter inspection licence conditions ought to be the same. Respondents therefore generally agreed that the 'do nothing' option is not a viable reform option. This is because the current meter inspection licence conditions in electricity only apply to non-half-hourly meters while the gas licence conditions apply to all meter types.

Our response

2.42. We have not received any challenges to make us consider treating gas and electricity meters differently in the two-yearly meter inspection supply licence requirements.

Industry data sharing requirements

Respondents' views

2.43. Five respondents felt that an outcome of our review should be reform of industry data sharing requirements. Most of these respondents called for the existing requirements to share and record the date of the last meter inspection in the gas supply and transporter licences to be replicated for electricity. One respondent put forward the view that the reform options should have included mandating data-sharing between industry parties.

2.44. These respondents were concerned with ensuring efficiencies in meter inspections on change of supplier and for network operators' inspection of their assets within the consumers' premises.

Our response

2.45. We are proposing to retain the licence requirement for gas transporters to record the dates of last gas meter inspections and for gas suppliers to pass this information on to gas transporters. These existing licence requirements usefully facilitate data-sharing between industry parties according to stakeholders, informing meter asset risk-assessments. So, we consider it proportionate and sensible to retain

them in the licence conditions. The transmission of this data to new suppliers on change of supplier could be mandated within the more detailed industry business processes described in industry codes.

2.46. We are not proposing to introduce new meter inspection data-sharing requirements into the electricity supply licence conditions. We acknowledge the value of sharing information about meter inspections effectively and efficiently. We appreciate that industry parties may wish to consider which data items could be useful for informing their safety risk-assessments and then raise code modifications to the Master Registration Agreement, and the Uniform Network Code and/or their subsidiary documents to require suppliers/meter operators to include these items in shared industry databases.

2.47. We also note that suppliers and meter operators have requirements to share some information relating to electrical metering equipment safety with Distribution Network Operators (DNOs)¹⁸.

Collective risk-assessment framework

Respondents' views

2.48. Six respondents put forward the argument that a collective industry risk-assessment framework should be put in place to ensure consistency of meter inspection standards across consumers and efficiencies of scale in the set-up costs.

Our response

2.49. We have decided not to develop or direct a collective risk-assessment framework for meter inspections. HSE offers guidance on risk assessment to help duty-holders discharge their obligations under health and safety legislation. All industry parties must satisfy themselves of their compliance with their health and safety legal obligations. We appreciate that industry parties may wish to consider whether it is proportionate and efficient to develop a common understanding of the risk indicators in metering safety for informing their individual risk-assessments.

2.50. We do not think there are significant obstacles to coordination in this area. In theft detection and investigation, we have identified a disincentive issue for individual suppliers to detect and investigate a societally optimal level of theft.

2.51. With meter inspections, each party has an obligation and an incentive to have effective safety procedures in place and to operationalise them. They are responsible for the safety of the meter as soon as they became the responsible party for arranging meter provision. They cannot defer responsibility to a previous suppliers'

¹⁸ For example, Condition 2.2.6. of the MOCOPA
<http://www.mocopa.org.uk/images/documents/documents/MOCOPA-v3.6.pdf>

negligence if they take on a supply metering point where a safety issue emerges. These are existing obligations in legislation rather than new obligations that we are introducing as a result of our review.

Identifying and assessing the impacts of reform

2.52. We asked respondents if we had identified all of the relevant potential impacts of reforming suppliers' meter inspection obligations, and whether they agreed with our assessment of the impacts.

2.53. Respondents generally agreed with our identification and assessment of impacts of reforming suppliers' meter inspection obligations. Some respondents expressed the view that we could have explored the risks of reform more thoroughly. We had considered the risks of the reform options within the category of 'effectiveness' in our assessment of the impacts. We also considered these risks in setting out the scope of our review. Below we set our responses to these views.

Safety

Respondents' views

2.54. One respondent raised the safety risks presented by metering equipment deterioration as an impact that should have been explored in our assessment for traditional meters that do not have smart functionality.

Our response

2.55. We assessed the reform options against the policy objective of health and safety for effectiveness and efficiency, relative to the counterfactual in which the meter inspection licence conditions remain as they are.

2.56. As set out in the section above on the scope of our review, we consider the safety requirements for traditional meters to be existing requirements in health and safety legislation and industry codes. Where smart metering functionality is lacking, a risk-based approach may lead to more frequent visual inspections as a mitigating action against potential safety issues.

Theft detection

Respondents' views

2.57. Three respondents raised the risk of tampering with traditional and/or AMR meters as an impact of repealing the meter inspection licence requirements. These respondents noted that these meters lacked the remote anti-tamper alerts of smart meters.

Our response

2.58. In relation to theft-detection risks for traditional and advanced meters, meter inspections have not proven to be an effective or efficient tool for detecting theft. Data-driven approaches are more proportionate and effective, and we encourage industry parties to devote resources to developing and operationalising such approaches. Tampering is currently considered to be a major cause of metering safety risks. So, improved theft detection strategies should also lead to more safety hazards being identified and addressed.

2.59. The BG Consent rested on the effectiveness of targeted theft detection initiatives British Gas introduced to facilitate a risk-based approach to meter inspections. British Gas has complied with the theft detection targets set out as conditions of the consent.

2.60. The Theft Risk Assessment Service (TRAS) is an industry-wide vehicle for this data-driven approach to theft detection. The TRAS, in combination with the 24 hour theft tip-off line, and broader licence obligations that already exist on suppliers to take all reasonable steps to prevent, detect and investigate theft are the package of policies which we expect to improve theft detection levels beyond current levels even with repeal of the meter inspection licence conditions.

Billing accuracy

Respondents' views

2.61. One respondent was concerned by the risk of billing inaccuracy for consumers with traditional meters as an impact of repealing the meter inspection licence requirements or moving to a five-yearly minimum inspection requirement. This respondent argued that there is no evidence of suppliers' compliance with the requirements in SLC 21B.4 to obtain a meter reading at least once every year.

2.62. Beyond this, the respondent was concerned by the optionality SLC 21B.4 provides for the meter reading to be provided by consumers themselves. This was not seen as an adequate substitute for a physical meter read taken by a trained meter operator (as required by the current meter inspection licence requirements). Self-reads, it was argued, could be inaccurate due to faults with the meter or misreading by consumers.

2.63. This view was supported by evidence of consumer complaints on bills, including large back-bills. The respondent argued that bill shocks for consumers who had been billed on estimated readings for a long period would be particularly impactful at the point of traditional meter exchange during the smart meter rollout.

This respondent noted that our latest smart billing proposals¹⁹ will only provide additional back-billing protection to consumers who have smart meters.

2.64. This respondent also recommended that we publish our analysis on the performance data British Gas submits under the conditions of the BG Consent.

Our response

2.65. We consider SLC 21B.4 and SLC 21B.5 to be appropriate tools for ensuring positive consumer outcomes on billing accuracy. We expect suppliers to comply with all of their licence obligations. We have access to data on meter read frequency for settlement purposes and would consider any instances of non-compliance with SLC 21B separately from our policy position on the meter inspection licence conditions.

2.66. Any incorrect submissions made through misreading the meter should be corrected the next time a supplier carries out a physical meter read or obtains a remote read. Moreover, inaccurate self-reads provided by customers through undetected meter damage should still be addressed by industry parties operating a risk-based approach to meter inspections.

2.67. We also note that suppliers and customers are able to challenge any meter reads that they consider to be inaccurate²⁰. There are additional provisions protecting vulnerable consumers who are unable to provide self-reads, and the Priority Services Register (PSR) review focuses on wider responsibilities of suppliers to identify consumers with specific non-financial needs and to provide them with services that are appropriate for those needs.

2.68. We consider it appropriate for SLC 21B.4 to provide flexibility for suppliers to consider the most efficient and effective way of obtaining meter reads. As part of British Gas' derogation to inspect meters on a risk basis with a five-yearly minimum interval, we also receive data on the number of meter reads obtained and the method of meter reading. This provides evidence that it is possible to inspect on a risk-basis without compromising the frequency and number of meter reads obtained. We have not published this data because it is commercially sensitive information on British Gas' operational strategies which we are obliged to protect.

Industry cooperation

Respondents' views

2.69. One respondent was concerned by the risks of inconsistent safety standards and unaddressed safety risks when consumers switch suppliers if different suppliers operate distinct safety regimes. They felt this was a risk if industry could not

¹⁹ <https://www.ofgem.gov.uk/publications-and-updates/smart-billing-smarter-market-our-proposals>

²⁰ Gas and Electricity standard SLCs 21B.2; <https://www.ofgem.gov.uk/information-consumers/domestic-consumers/making-enquiry-or-complaint>.

cooperate on information-sharing and developing a collective risk assessment methodology.

2.70. Another respondent was concerned that the impacts on industry parties of having to change their meter inspection policies and procedures by April 2016 had not been considered and it would be especially challenging for smaller suppliers to change their practices.

Our response

2.71. Industry parties are already required under existing health and safety requirements to assess and address safety risks of metering equipment on a risk-basis. This legislation is goal-setting rather than prescriptive, and requires duty-holders to satisfy themselves they are compliant by assessing risks. These requirements apply regardless of SLC 12, and we are proposing to remove the backstop requirement in licence conditions rather than introduce a new requirement.

2.72. Meter provision is an undertaking of suppliers for most consumers (some consumers may contract directly with a meter operator for their energy meter(s)) and responsibility for a supply point changes between suppliers/meter operators in the energy industry.

2.73. Transparency of the risk-assessment methodologies and safety procedures that different parties apply within the industry is an underlying feature of the market regardless of the policy reform. In electricity, for example, under the current two-yearly meter inspection licence requirements, the inspection interval resets on change of supplier. In gas, the risk indicators on which meter inspections should be based are not captured in the current supply point enquiry service information.

2.74. Our policy proposal and proposed licence modifications do not require suppliers to necessarily change their current meter inspection practices, if they consider these to be robust processes which adequately mitigate safety risks.

2.75. We appreciate that industry may wish to collaborate on identifying risk-indicators and data sharing requirements and implementation solutions to create efficiencies in their risk-assessments and risk-mitigating activities. This builds on the work started by the MISG.

2.76. As part of our consideration of the impacts of the reform, we have also considered the differences in impacts on different types of industry party. We appreciate that there may be a case for suppliers to continue inspecting meters according to a mechanistic approach upon repeal of the two-yearly meter inspection licence requirements.

2.77. Overall, we consider the compliance costs of identifying and addressing metering safety risks to be an existing cost of operating in the retail energy market. These are the costs of duty-holders satisfying themselves that they are compliant

with safety-related legislation, meter operator codes, and the Electricity Act 1989 and they exist regardless of the meter inspection licence requirements.

2.78. Furthermore, our policy proposal would introduce the same meter inspection requirements for all suppliers. We consider this to be an improvement for competition relative to the status quo.

Costs to consumers

Respondents' views

2.79. One respondent said that our assessment of the impacts of the reform options should have considered how the costs of the options will be distributed amongst Distribution Network Operators and across industry parties.

Our response

2.80. Our approach to assessing the cost impact of the reform options acknowledged that the cross-industry impacts should be considered. This is in order to assess the overall costs to consumers.

2.81. We noted in our July consultation that DNOs had highlighted to us that the static inspection backstop requirements in supply SLC 12 form part of their current risk assessments carried out to fulfil their health and safety obligations under ESQCR. We understand that DNOs do not currently have formal arrangements in place with suppliers to routinely inspect service termination assets on the behalf of DNOs.

2.82. However, DNOs are responsible for discharging their obligations to maintain the safety of their equipment. Regardless of which parties carry out work to check and maintain these assets, DNOs should have their own assurances in contracts for this purpose. Therefore, we consider the inspection costs under our policy proposal to repeal the two-yearly meter inspection licence obligations are existing compliance costs rather than new costs caused by reform.

Overall assessment

2.83. Our policy proposal is to repeal the two-yearly meter inspection supply licence conditions in order to remove duplication with health and safety legislation, SLC 21B.4, and SLC 12A; and to remove the potential obfuscation with the requirements in health and safety legislation. We also believe this policy change will improve competition compared to the status quo by introducing the same enduring meter inspection arrangements for all suppliers, and will have the greatest potential to enable cost savings from smart meters.

2.84. We have taken into consideration, amongst other things, consultation responses, the independent risk-assessment British Gas commissioned in support of

their request to operate alternative meter inspection arrangements, British Gas' reporting data for their consent to operate alternative meter inspection arrangements, and the HSE's advice.

Consequent impacts

2.85. We asked respondents whether we had identified all of the consequential impacts of repealing the licence conditions for other licence conditions and industry codes.

2.86. Most respondents agreed with our assessment of the consequent impacts on licence conditions and industry codes. We have addressed some comments in particular below.

Date of last inspection

Respondents' views

2.87. One respondent sought clarification that gas transporters would continue to have recording obligations with respect to any meter inspection dates passed on to them. Many respondents raised the point that any electricity meter inspection data reporting requirements could be aligned with the existing requirements in gas.

Our response

2.88. We confirm our view that the meter inspection date recording requirements in gas transporter licences should be retained as stakeholders find this information useful for informing future metering equipment risk-assessments by suppliers and network companies. Appendix 4 sets out proposed licence modification to standard special condition A50(8g) for gas transporters. Appendix 3 sets out the equivalent proposed licence modification to standard condition 5(8g) for independent gas transporters. The proposed amendments serve to remove reference to SLC 12.8 of the gas supply licences which we propose to repeal.

2.89. We are also proposing to repeal standard condition 8(6) for independent gas transporters and standard special condition D(17.6) for gas transporters. Appendices 3-4 set out the proposed modifications. These amendments serve to remove the current requirements on gas transporters to notify gas shippers when the two-yearly gas meter inspection is due under certain circumstances. We propose to remove this requirement, which currently references SLC 12 of the gas supply licences, as under our proposals there will no longer be a two-yearly minimum inspection interval for gas suppliers to conform to.

2.90. Our proposed amendments do not preclude gas transporters from notifying gas shippers of the dates of the last gas meter inspection they have been informed of. However, we do not consider that this level of prescription is necessary in the licences. Any requirements to transmit meter inspection dates could appropriately be

set out in the Uniform Network Code to the extent it would facilitate future risk assessments.

2.91. The current gas supply SLC 17.12 requires gas suppliers to pass on the date of meter inspections done to the relevant gas shipper (or directly to the gas transporter if the supplier is also the relevant gas shipper), and the reading of the register, and any findings of the inspection. We propose to bring the gas supply standard SLC 17.12 into line with the gas transporter licence requirements to record only the date of last inspection.

2.92. Our proposed licence modifications do not preclude further data such as the meter reading and any findings of the inspection being sent by gas suppliers and recorded by gas transporters. However, we do not consider that this level of prescription is necessary in the licences. Any requirements to record data over and above the inspection date could appropriately be set out in the Uniform Network Code to the extent it would facilitate future risk assessments.

2.93. We propose to remove the cross-reference in gas supply SLC 17.12 to inspections done pursuant to SLC 12 and refer to inspections more generically. We have referred to inspections generically in terms of their purpose. This is in order to ensure there is some common understanding of which meter inspections are relevant for the purposes of the date recording requirement.

2.94. There are other inspection obligations in gas supply SLC 12.5 for suppliers to remove Gas Meters on request of the consumer in order for it to be examined by a meter examiner in accordance with section 17 of the Gas Act. There are also requirements in gas supply SLC 12A to take all reasonable steps to detect, investigate and prevent theft of gas which could include meter inspections.

2.95. In addition, inspections may be required to fulfil the health and safety requirements in legislation and in the meter operator codes. Therefore, the dates of any inspections taken for any of these purposes could be passed on to the gas transporter to record the date to usefully inform other suppliers' and the network's risk-assessments for the purposes of health and safety. We suggest that the purposes of all of these inspections can be more broadly characterised as ensuring the safety and proper working order of the meter.

2.96. For avoidance of doubt, we do not propose modification to the gas shippers' licence since the requirement on gas shippers to transmit details of gas inspections to gas transporters cross-references SLC 17 of the gas supply licence rather than SLC 12, which we propose to repeal.

Balancing and Settlement Code Amendments

Respondents' views

2.97. One respondent agreed that Balancing and Settlement Code Procedure (BSCP) 502²¹ for half-hourly metering systems would need to be amended and reviewed. This is because BSCP 502 requires annual inspection for poly-phase half-hourly connections and biennial inspection for single-phase half-hourly connections to counter settlement inaccuracy risk for half-hourly meters²².

2.98. From 5 November, metering systems in measurement classes E-G will be exempt from these requirements with the condition that they should be inspected at least once every two years as if Electricity standard SLCs 12.14-12.16 applied to them. This reflects the low settlement risk for sub-100kW metering systems.

2.99. This respondent put forward the view that the settlement inaccuracy risks have changed for meters that are half-hourly since this BSCP was drafted, as evidenced by the latest change proposal to align Measurement Classes E, F and G with SLC12²³. The respondent also agreed it would be appropriate to remove the cross-reference to Electricity supply SLC 12 as well as review the annual and biennial inspection requirements in the BSCP for all sub-100kW half-hourly meters.

Our response

2.100. For BSCP 502, we expect a Change Proposal to be submitted and approved by the code administrator to remove the reference to compliance with Electricity Supply SLC 12 in the exemption for Measurement Class E-G to inspect annually or biennially. We also expect the Change Proposal to more broadly consider the appropriate inspection requirements for settlement purposes for sub-100kW metering systems

2.101. Our licence condition policy proposals leave the door open for BSC parties to consider whether 100kW or above metering systems ought to remain subject to meter inspection requirements within the BSCPs on the basis of their greater settlement inaccuracy risks.

2.102. We consider the intent of the BSCP 502 inspection requirements is to guard against settlement risk. The BSC is a balancing and settlement code, and safety inspection requirements do not appear to be an appropriate inclusion in the code. We would therefore support an amendment to condition 4.1.8 of the BSCP to remove 'potential safety concerns' from the list of checks which should be carried out as part of a BSC-related meter inspection.

2.103. The timescales for the change proposals should fit in with the supply licence condition modification timetable we are setting out in this document. It seems most appropriate for the change proposal to be implemented in the February release of the BSC systems just before our licence changes are due to take effect.

²¹ https://www.elexon.co.uk/wp-content/uploads/2015/06/BSCP502_v24.0.pdf

²² Condition 4.1.8

²³ https://www.elexon.co.uk/wp-content/uploads/2014/10/05_SVG171_02_CP1431_v1.0.pdf

Implementation approach

2.104. We asked whether respondents saw any issues with our proposed implementation approach.

Respondents' views

2.105. Most respondents agreed with or raised no issues with our proposed approach. Most respondents did not raise any issue with the proposed April 2016 implementation date, and three respondents in particular noted it was appropriate. A few respondents put forward the view that our implementation approach lacked some important considerations and that our timescales were too ambitious. Respondents put forward a range of arguments such as:

- Insufficient evidence will exist by 1 April 2016 that the TRAS is effective in improving theft detection and investigation.
- An insufficient number of smart meters will be installed by 1st April 2016 and DCC go-live dates have been pushed back. This delays the delivery of smart meter benefits of theft detection and enhanced billing accuracy. It also delays the opportunity for suppliers to collect data during site visits on relevant consumer and premise characteristics to inform their safety risk-assessments going forward.
- Insufficient time for industry to develop a risk-based approach by 1st April 2016.

2.106. Some respondents believed that we should play a stronger role in setting the direction of the industry's development of a risk framework for meter inspections and data sharing. For example, some respondents put forward the view that:

- we should require suppliers to share certain data items (such as date of last inspection and the purpose of inspection and site visit) and publish their risk assessment methodologies.
- we should require suppliers to develop a collective risk-based framework and help to develop this.
- we should audit suppliers' risk-assessment frameworks for meter inspections.

2.107. We address these points individually in the following sections.

Our response

TRAS

2.108. Meter inspections have not proven to be an effective and efficient for detecting theft according to the evidence from monitoring done under the Supply Point

Administration Agreement, and data-driven strategies ought to improve industry performance in this area. We have directed industry to implement the TRAS to enable it to adopt this more effective data-driven approach.

2.109. We understand that progress towards establishing the TRAS is currently on track for a go-live date in spring 2016. There are theft detection targets set for the industry as a whole and for individual suppliers. Within the first year of implementation, the methodology for setting the industry-wide target will be published.

2.110. There are also licence obligations in place for gas and electricity suppliers to take all reasonable steps to detect, investigate and prevent theft. We believe that these obligations are more effective obligations for countering theft than a static meter inspection regime. Moreover, only a small improvement would be required to offset any potential reduction in instances of theft detected by less frequent meter inspections.

2.111. We also stress that there are strong links between incidences of meter tampering and safety issues. Therefore, a risk-based approach to meter inspections should not lead to less frequent meter inspections for meters at sites with particular theft risks. Suppliers should already be taking this risk-based approach under their broader health and safety requirements in legislation.

Smart meter roll-out

2.112. We have addressed respondents concerns with the principle of including traditional and advanced meters in the scope of our review in the section above.

2.113. With respect to the implementation of our policy proposal, we note that suppliers could continue to inspect traditional and/or advanced meters on a more frequent basis than smart meters under a risk-based approach. While suppliers are still making site visits to take readings of traditional meters, in practice, they can also continue to carry out meter inspections as often as they read meters at a low or negligible marginal cost.

Timescales

2.114. Our policy proposal does not require suppliers to change their current meter inspection practices if they consider these to be robust processes for mitigating safety risks.

Our role

2.115. As set out in the responses to the challenges to the scope of our review, we have decided not to develop a risk-based framework with industry or to prescribe the commercial arrangements for data-sharing and inspection services.

2.116. On data-sharing requirements, we appreciate that industry parties may wish to consider which data items would be most useful for inspection procedures. For example, dates of inspection, particular findings of inspections, flags for any remedial work done as the result of an inspection, the purpose of the site visit, and an identifier for the type of industry party who undertook the inspection etc.

2.117. Industry may also need to consider who is responsible for transmitting and recording this data, who it flows to and when. For example, industry parties may wish to consider whether it is most useful to have these data items incorporated within look-up databases (such as the Electricity Central Online Enquiry Service (ECOES) in electricity or the Data Enquiry Service (DES) in gas) and whether they should be included in meter asset data flows transmitted to other industry parties upon meter point registration or operational data transmitted on occurrence of a site visit²⁴.

2.118. The way in which industry data is used would be a matter for individual parties to consider. Therefore, industry parties are best placed to consider how data items should be defined, recorded and transmitted in order to gain value from the data.

Monitoring

2.119. We are not requiring suppliers to publish their risk-assessments. Mandating this could lead to perverse incentives on suppliers to not consider the optimum risk-assessment strategies for their own portfolio of meters and customers. Nonetheless, industry parties could choose to share best practice with each other.

2.120. We will consider suppliers' performance against the meter reading and billing requirements of SLC 21B as a separate matter to this meter inspection policy proposals.

2.121. We will continue to use our wider market monitoring of consumer outcomes related to meter inspection activities through consumer complaint handling, and visibility of safety outcomes rather than auditing the inputs to suppliers' inspection strategies.

2.122. We do not intend to assess suppliers' risk methodologies. It is each party's responsibility to ensure compliance with health and safety legal obligations, and the appropriate risk-management practices would differ between suppliers. Nevertheless, we retain the powers to enforce against non-compliance with metering obligations in industry codes that are backed by licence conditions.

²⁴ For example, in electricity under the MRA, data flow D0010 contains a data item (J1888) which flags whether meter reads are done through agent site visits or not. This could be used as a model for a meter inspections data flag. Change of supplier metering data such as meter operator appointment/de-appointment could also be expanded to include date of last meter inspection as part of the Meter Point Administration Service.

Appendices

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2	Notice of proposed licence modifications to the standard conditions of the electricity supply licences	See separate document
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Appendix 5: Glossary

A

Authority

The Gas and Electricity Markets Authority

Advanced meters

Advanced meters are meters able to provide measured consumption data for multiple time periods (at least half hourly for electricity and hourly for gas) and to provide the supplier with remote access to that data.

D

Department for Energy and Climate Change (DECC)

The UK government department responsible for energy and climate change policy

Domestic consumer

A customer that uses energy for non-commercial purposes

O

Ofgem

Office of Gas and Electricity Markets

S

Smart meter

Smart meter is a meter which, in addition to traditional metering functionality (measuring and registering the amount of energy which passes through it) is capable of providing additional functionality, for example two way communication allowing it to transmit meter reads and receive data remotely. It must also comply with the technical specification set out by the Smart Metering Programme.

T

Traditional meter

A gas or electricity meter that cannot provide either on its own or with any ancillary device that has been installed, remote access to measured consumption data for multiple periods.