



Making a positive difference,
for energy consumers;

Gwneud gwahaniaeth gwirioneddol
i ddefnyddwyr ynni

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Date: 4 February 2016

Dear Company Secretary

Modification of Gas Supply Licence

Please find enclosed a modification of standard licence conditions 12 and 17 of the gas supply licence.

We gave notice on 16 November 2015 (the Notice) that we proposed to make modifications to conditions 12 and 17 of the Licence. We asked for any representations to the modifications to be made on or before 15 December 2015.

The modification to SLC 12 will remove the requirement for suppliers to inspect their meters at least once every two years. We are removing licence conditions 12.8 to 12.16 because their policy objectives are now more effectively and efficiently achieved through other supply licence conditions and existing legislation. Suppliers should satisfy themselves that their approach complies with health and safety legislation, which may include adopting a risk based approach. We are retaining the requirement in SLC 17 for suppliers to pass on to the gas shipper, for transmission to the gas transporter, the date of the last safety inspection of the meter. SLC 17.12 has been modified to remove references to the two yearly inspection conditions, and to remove non-safety related data items.

British Gas have an existing derogation from the two year meter inspection requirements in condition 12. This derogation will expire on the 31 March 2016. The CMA identified the British Gas derogation as one of the barriers to effective competition. We consider that the removal of the 2 year meter inspection requirements in condition 12 will better facilitate competition.

The smart meter rollout also presents an opportunity to reassess the appropriateness of a static meter inspection interval, as it has the potential to facilitate more effective and efficient achievement of the policy objectives without the need to inspect them regularly as traditional meters. Smart meters are expected to significantly improve billing accuracy and reduce electricity theft through the remote capabilities of the meter.

We received 14 responses to the statutory consultation. Those marked not-confidential have been published alongside this letter on our website. We have considered those responses when making our decision on the proposed modification. A summary and discussion of those responses can be found in Appendix 1.

The Office of Gas and Electricity Markets

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In accordance with the powers contained in 23(1)(b) of the Gas Act 1986, we have decided to modify conditions 12 and 17. This decision will take effect on and from 1 April 2016.

If you have any queries please contact Tom Handysides, Senior Policy Manager on 020 7901 7289 or by email tom.handysides@ofgem.gov.uk.

Yours faithfully

Rob Salter - Church, Partner
Duly authorised on behalf of the
Gas and Electricity Markets Authority

Appendix 1 – List of respondents and summary of responses

We received 14 consultation responses from stakeholders. The non-confidential responses are published on our website alongside this letter.

Respondents

British Gas
Carbon 2018
Citizen's Advice
Danske Commodities
EDF
Energetics
EON – electricity supply
EON – gas supply
First Utility
Good Energy
Interserve
Npower
SGN
SSE

Summary of responses

Most responses were supportive of our proposals. We received no substantive comments on our revisions to the licence. Some respondents took the opportunity to comment on our final policy proposals, which we consulted on earlier in the year. In particular, respondents raised the risk of billing inaccuracy, issues relating to our chosen implementation date, and our role. We have considered the responses received when making our decision on the modification.

Billing inaccuracy

Respondents' views

Some respondents felt that removing the two-yearly meter inspection obligation could lead to inaccurate bills for customers with traditional meters. They suggested this could increase the risk of backbilling, including unexpectedly high bills when their traditional meters are exchanged for smart meters.

Our response

As noted in the November 2015 consultation, we believe that licence conditions 21B.4 and 21B.5 meet the objectives of billing accuracy in a more effective and efficient way than a static meter inspection interval. These conditions go further in requiring a meter read at least once a year, and allow suppliers flexibility in how they choose to obtain the meter readings.

We do not think it is good regulatory practice to retain the meter inspection conditions to provide a backstop in case of non-compliance with other conditions. If we receive evidence of non-compliance with any licence conditions, including SLC 21B, we will take suitable action.

We will not be amending the modification text to exclude traditional meters from the repeal of conditions 12.8 to 12.16.

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Implementation date and our role

Respondents' views

One respondent raised a concern about our implementation date of 1 April 2016. They felt this to be an ambitious timescale for industry to put into place new processes, and that a transition period would be appropriate. Some respondents also noted their wish for us to play an active role in facilitating industry groups on a common risk framework.

Our response

This modification does not necessarily require a change to suppliers' processes, should they consider their processes to be robust and appropriate. Suppliers should be able to satisfy themselves of their existing obligations under health and safety legislation, which could include a risk-based approach to matters of safety. The repeal of SLCs 12.8 to 12.16 will therefore not introduce any new requirements. If a supplier does not have appropriate risk information about their metering portfolio, they may choose to reflect this in their operations to satisfy themselves of their legal safety obligations.

Industry parties may wish to develop a common understanding of the risk indicators for metering, if they believe that this would be an efficient way to support the discharging of their responsibilities. The responsibility for meter safety in a supplier's portfolio would nonetheless remain with that individual supplier. We believe that industry is the best placed party to lead and assess these issues, and we will not be taking an active role in driving this forward. We will however continue to play our part where this falls within our remit, for example in making decisions on modifications to industry codes.

As part of our broader role in monitoring the outcomes of the meter inspections review, we will continue to:

- Respond to issues raised by customers and industry.
- Engage with DECC and the HSE (through our MoU¹) on common areas of interest on meter safety.
- Monitor the wider market on issues of billing accuracy and theft prevention.

The modification will therefore come into effect on 1 April 2016, as laid out in the November 2015 statutory consultation.

¹ www.hse.gov.uk/aboutus/howwework/framework/f-mou_j.pdf