

# **Citizens Advice response to Ofgem's consultation on reforming suppliers' meter inspection obligations**

September 2015



# Introduction

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination. Since 1 April 2014, Citizens Advice service took on the powers of Consumer Futures to become the statutory representative for energy consumers across Great Britain.

The service aims:

- To provide the advice people need for the problems they face
- To improve the policies and practices that affect people's lives.

The Citizens Advice service is a network of nearly 400 independent advice centres that provide free, impartial advice from more than 3,500 locations in England and Wales, including GPs' surgeries, hospitals, community centres, county courts and magistrates courts, and mobile services both in rural areas and to serve particular dispersed groups. In 2012/13 the Citizens Advice service in England and Wales advised 2.3 million people on 6.6 million problems.

Since April 2012 we have also operated the Citizens Advice Consumer Service, formerly run as Consumer Direct by the OFT. This telephone helpline covers Great Britain and provides free, confidential and impartial advice on all consumer issues.

In the last four quarters Citizens Advice Bureaux have dealt with 84,000 enquiries about fuel debt, while hits to the energy section of our website doubled in October and November, the period during which suppliers announced their price increases last year. Calls to the Citizens Advice Consumer Helpline seeking advice about energy doubled in the same period.

# Initial comments

Citizens Advice welcomes this consultation on changes to supplier's meter inspection obligations. We agree that in the context of the smart meter rollout it is sensible to review the current requirements for all meters to be inspected every two years.

Smart meters will send automatic readings to suppliers, and also have built in safety and anti-theft features. These will enable suppliers to send consumers accurate bills and remotely monitor these meters for security and theft, without having to physically inspect the meters. Reducing meter inspections for smart meters should mean significant efficiency cost-savings for suppliers, which will ultimately deliver savings for consumers bills in the future.

The introduction of smart meters also requires regulatory changes to ensure increased consumer protection; for example, Ofgem's smart billing proposals, which include measures to protect consumers with smart meters from excessive backbilling. These changes mean that consumers could benefit if suppliers move to a risk-based approach for inspecting smart meters.

However, the regulator's preferred policy option would remove the inspection obligation for all meter types, not just smart meters. We are concerned that consumers with traditional meters are at greater risk than those with smart meters. In particular, these consumers could face more inaccurate bills, especially if they have previously been reliant on suppliers taking meter readings. Since these consumers also have less protection from backbilling, we believe that the proposals could place them at higher risk of receiving a 'shock bill'.

We recognise that Ofgem has recently introduced new licence conditions which may offer these consumers some extra protection from inaccurate bills. However, there is no evidence yet of the effectiveness of these measures, and as such we believe that retaining the two-yearly inspection is an appropriate regulatory backstop for consumers with traditional meters.

We urge the regulator to consider an alternative option for reform, in which the static inspections obligation is removed for smart meters, but kept in place for traditional meters and smart meters operated in 'dumb' mode. This would take advantage of the benefits of smart metering, while protecting consumers with a traditional meter, including those consumers who are unable or unwilling to have a smart meter installed as part of the rollout.

# Question responses

## Chapter 1

### Question 1: Do you agree with our assessment of the need for reform?

#### Health and safety

The consultation document sets out the latest advice from the Health and Safety Executive (HSE), which appears inconsistent with their views expressed in recent years. At the time of the supply licence review in 2007, HSE considered that the Energy Retail Association (now Energy UK) had failed to produce robust evidence that the removal of the two year inspection obligation would not lead to an increase in risk to consumers.<sup>1</sup> In 2012, when consent was granted for the British Gas derogation, the HSE wrote that the granting of the derogation would not affect the level of societal safety risk from meter equipment, but that ‘this may not be applicable more broadly across the sector’.<sup>2</sup>

Citizens Advice recommends Ofgem publish the advice received from the HSE, in order to better understand the rationale for the prescriptive health and safety obligations to be removed entirely from the meter inspection supply licence conditions (we note that such advice was published alongside the consent for the British Gas derogation). We would also welcome any information about how HSE may change their enforcement approach to the health and safety obligations in relation to metering, if the overlap of regulatory responsibilities for safety is reduced.

#### Changes to regulation

Citizens Advice agrees that the introduction of new licence conditions in relation to meter readings (SLC 21B) and theft (SLC 12A) could lead to some duplication within the licence conditions, which should be avoided where it is unnecessary. However, there are some key distinctions between these regulations; for example where licence condition SLC 12 requires a physical meter reading, SLC 21B allows meter readings supplied by consumers and smart meter readings as well. SLC 12 is also a potentially stronger condition, as it explicitly includes the power to use a warrant to enter properties to check gas meters. As such, these licence conditions are not interchangeable, and there may be reasons to keep both, including to ensure physical meter readings are taken with minimum regularity.

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<sup>1</sup> <https://www.ofgem.gov.uk/ofgem-publications/38819/slr-final-proposals-decision-doc.pdf>

<sup>2</sup> <https://www.ofgem.gov.uk/sites/default/files/docs/2012/03/consultation---british-gas-request-for-changes-to-its-meter-inspection-licence-obligations.pdf>

## Competition context

We understand that consent for the British Gas derogation could have a small impact on competition by bringing forward some costs for gaining suppliers when British Gas customers switch. However, there is no evidence from suppliers on the scale of the issue, and we are not yet convinced that there is cause to act on this basis. The option to apply for a similar derogation is open to all suppliers if they feel it would be beneficial to them.

The Competition and Markets Authority (CMA) has identified this as a potential issue and proposed some possible remedies. The final report from the CMA should give a clearer indication of whether these issues are significant and require intervention. Citizens Advice anticipates that the outcome of the final report will be reflected in Ofgem's decision document published at the end of the year.

## Smart meter rollout

Citizens Advice agrees that the smart meter rollout should significantly reduce the need for suppliers to make site visits to check smart meters, and that these cost savings provide a significant part of the financial benefits of the smart meter programme. Although the benefit of avoided inspections accrue to suppliers, we would expect that these savings will be passed through to consumers.

We note that DECC calculated these cost savings on the basis that these changes would apply to smart meters only, and that smart meters would be inspected on the same frequency as under the British Gas derogation (every 5 years for 90% of low risk meters, and every 2 years for the 10% of meters).<sup>3</sup>

## Chapter 2

### Question 1: Do you agree with the scope of our review?

#### Meter types

Citizens Advice understands that the drivers for meter inspections may be similar for both smart and traditional meters: however, it is our view that the risks for consumers will be different depending on the type of meter they have.

Ofgem's smart billing proposals (currently out for consultation) will protect all consumers with smart meters, operating in smart mode, from excessive backbilling if their bills are inaccurate. In comparison, consumers with traditional meters and those with smart meters operating in 'dumb' mode will continue to have limited protection from backbilling, and will face higher risks from the effects of estimated bills and inaccurate self-reading of meters. These continue to be prominent issues

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<sup>3</sup>[https://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](https://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)

for consumers; inaccurate billing is the number one energy sector issue that consumers contact the Citizens Advice Consumer Service about.<sup>4</sup>

It is essential that the regulator considers the potential impact that any change to the licence condition might have on consumers with a traditional meter. These consumers should not be penalised and put at risk of receiving a 'shock bill' because of their meter type.

In addition, smart meters will have safety and theft prevention features which will enable remote detection of issues, whereas traditional meters will remain more dependent on physical checks by their supplier to detect these issues. This is a particular concern for consumers in vulnerable circumstances.

Given the significant difference in consumer experience between consumers with a smart meter and a traditional meter, we do not agree that there should be a common inspection obligation for both meter types.

### Industry practice

We agree that there should be a consistent approach across industry to meter inspections. The risk assessment framework under development by the Meter Inspection Subgroup (MISG) should take account of the needs of consumers, and not just the characteristics of the meter. This should ensure that vulnerable consumers in particular are protected in relation to metering issues.

The decision document should include a timeline for when the framework will be completed and operational. Once it is completed, we hope to be given the opportunity to comment on the framework, either through a consultation or through our seat on the Smart Meter Delivery Group (SMDG).

It is clear that in order to continue to comply with health and safety legislation, DNOs may need to alter the risk assessments of their assets in consumer's premises. If this has consumer impacts, for example additional site visits to properties, DNOs should make this clear.

### Industry parties

While it may be preferable to have similar rules across suppliers, we are concerned that not all suppliers will be able to achieve the policy objectives of this review successfully. The potential for negative impacts on consumers was recognised as part of the Supply Licence Review, and as such a derogation from the obligation was only granted to British Gas after a robust assessment by Ofgem, and the imposition of strict conditions and monitoring.

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<sup>4</sup> 38% of calls to the Consumer Service regarding energy were related to inaccurate billing in the period of September 2014 to August 2015.

## Question 2: Do you think we have focused on the right options for reform?

Given our concern that consumers with traditional and smart meters face different risks, we do not agree that the right options for reform have been considered. A further option should be considered, which retains SLC 12 for traditional meters and smart meters being operated in 'dumb' mode, but removes the obligation for all fully SMETS-compliant smart meters. This would protect consumers with traditional meters during the smart meter rollout period, as well as the minority of consumers who will be unable to have a smart meter installed, or who choose to operate their meter in 'dumb' mode.

## Chapter 3

### Question 1: Are there any important impacts of reforming suppliers' meter inspection obligations that we have not identified?

It is our view that the introduction of a common meter inspection obligation across all meter types could reduce the net benefits to suppliers of installing smart meters.

There could have been consideration of the impact on supplier's smart meter installation plans, as this could incentivise them to relax or alter their rollout plans. Having stricter inspection obligations for traditional meters could act to retain the incentives to install smart meters.

The consultation does not give any particular consideration to advanced meters, which have been installed in some domestic properties, and will be installed in a significant number of non-domestic premises by the end of the smart meter rollout. These meters may not have the same capabilities as SMETS-compliant smart meters in relation to safety and theft-detection. As such, the differential impact of the changes on consumers with these meters should have been considered.

## Chapter 4

### Question 1: Do you agree with our assessment of the options?

#### Health and Safety

At present, health and safety requirements are contained in various industry codes and legislation, as well as in SLC 12. Citizens Advice does not agree that having a static meter obligation is necessarily inconsistent with the requirements of health and safety legislation. We understand that in 2012 the HSE wrote that the

requirement complemented the legislation.<sup>5</sup> As stated previously, we would welcome the publication of the new advice from HSE in regards to meter inspections.

This consultation refers to information from the British Gas derogation risk assessment: however, no evidence from the period of the consent itself is included in the document. As part of the consent, we understand that Ofgem has received quarterly reports, including Key Performance Indicators (KPIs) on safety. Citizens Advice recommends that the regulator consider publishing an analysis of this data to provide further insight into the impact of relaxing the licence obligation on safety.

### Theft

The relatively small proportion of theft cases which are identified by routine meter inspections means that meter inspection is not an efficient route to tackling theft. We support the new package of measures to tackle theft, including the new Theft Risk Assessment Service (TRAS). Detection of some methods of theft should also be made easier by the introduction of smart meters.

### Billing

Citizens Advice is concerned about the possible impacts that reducing the frequency of meter inspection will have on consumers with traditional meters.

We understand that British Gas has been reporting to Ofgem on billing accuracy as one of its KPIs, and that no evidence of detriment to consumer billing accuracy has been identified by Ofgem. This analysis should be published by Ofgem, including any analysis of the impacts on billing accuracy between different meter reading types (eg those who had a meter reading, those who provided self-reads, and those with smart meters).

Nevertheless, a number of differences between the British Gas derogation and the proposals in this consultation suggest that this might give an imperfect insight into the likely effect of removing the meter inspections obligation.

As part of the consent for the derogation, British Gas had to comply with a number of conditions, which are not included in either of the policy options set out in this consultation. These include being required to inspect meters of consumers on the Priority Services Register (PSR) every two years, to continue to inspect meters at each available opportunity, and to maintain the two year inspection cycle for meters acquired through churn, before enrolling on to the five year cycle. In addition, British Gas consumers were protected from excessive backbilling as British Gas is a signatory to the Billing Code.

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<sup>5</sup><https://www.ofgem.gov.uk/sites/default/files/docs/2012/03/consultation---british-gas-request-for-changes-to-its-meter-inspection-licence-obligations.pdf>



We recognise that regulation has moved on since consent was granted for the British Gas derogation, with the introduction of the obligation for suppliers to obtain meter readings at least once a year (SLC 21B.4). Since this obligation has been in place for less than a year, it is not yet possible to assess compliance with the regulation, or indeed its impact on billing accuracy in the market. Information about the regulator's monitoring of the impact of SLC 21B at the end of the first year would be welcome.

Citizens Advice is concerned that some suppliers may not take 'all reasonable steps' to obtain meter readings, for example by not displaying requests for self-reads from consumers prominently. Furthermore, some consumers may not understand the importance of these requests, especially if they have previously relied on the supplier to read their meter. We would expect that where a supplier has been unable to bill on an accurate meter reading they will make additional efforts to obtain one (including separate reminder letters, phone calls etc), before a year has passed since the last accurate bill. We welcome Ofgem's commitment to take enforcement action against companies who do not comply with SLC 21B.4. However, this action would inevitably only be after consumer detriment has already occurred.

The risks of inaccurate bills will be lower for consumers with a smart meter, which will send regular meter readings to their supplier. If a supplier fails to act on these readings the consumer will be protected from backbilling by Ofgem's smart billing proposals (assuming these go into force). In contrast, consumers with traditional meters may have no protection from backbilling if their supplier is not signed up to the Billing Code. Even where suppliers are signatories to the Code this would not offer protection in all circumstances, for example where a consumer provided an incorrect self-read to their supplier.

We also know that some consumers who have been receiving estimated bills will receive large backbills when they have a smart meter installed and a final reading is taken from their traditional meter. The proposed changes to the inspection obligation could lead to decreasing billing accuracy on traditional meters during the smart meter rollout, which would exacerbate this problem for consumers.

We welcome the proposals as part of the Priority Services Register (PSR) review to make more vulnerable consumers eligible to have their meter read each quarter if they are unable to read their meters themselves. However, this change is not yet in place, and it will take some time for suppliers to identify which consumers would benefit from this service as part of their needs-based PSR service.

Some of the issues we have identified could be mitigated if the risk-based framework under development by MISG adequately considers characteristics of the consumer and meter type. However, there are no details of this framework at present, and Ofgem has no plans to review or make recommendations for this

framework. As a consequence, we are unable to comment on the extent to which this will protect consumers.

Given these risks to consumers in the short and medium term, we believe that a regulatory backstop is still appropriate for consumers with traditional meters and those who have smart meters operating in 'dumb' mode (including consumers with SMETS1 specification meters who are likely to lose smart functionality when they switch). We are not convinced that the five year timescale in Option A is sufficient to protect these consumers, without similar safeguards that existed in the derogation granted to British Gas. As such, we believe that the existing licence condition should stay in place. Suppliers would continue to be able to seek a derogation from this, if they can meet the extra conditions required and submit to monitoring to ensure that their consumers do not suffer detriment.

### Impacts on costs to consumers

Avoided site visits form an important benefit of the smart meter rollout for suppliers; a cost saving which should be reflected on consumers bills. We do not believe that retaining the existing obligations for traditional meters will significantly change the cost of Option B set out in the consultation, since the majority of traditional meters will be replaced with smart meters by the end of the rollout.

We agree that while there may be some impact from any changes inspection obligations on DNOs procedures, this is not a new obligation for them to fulfil. As such, any increased costs they incur should not be passed through to consumers in higher network charges.

## Question 2: Do you have any evidence to support your views?

The Citizens Advice Consumer Service, provides free, confidential and impartial advice on all consumer issues. Over the past twelve months (September 2014 to August 2014) 38% of energy-related contacts from domestic consumers were about inaccurate billing, which was the largest category of contacts we received. A further 14% of calls were about metering issues (excluding smart meters). In addition, both of these categories had increased from the previous twelve month period, both in total volume of contacts and as a proportion of the total contacts received. This speaks to the size of the challenge the industry faces in these areas.

The Extra Help Unit, which helps consumers with vulnerabilities or complex cases, has helped consumers with backbilling issues, arising because of long periods of estimated billing by suppliers. Even in cases where the supplier is a signatory of the Billing Code and the backbill is limited to the previous twelve months, these bills can be large enough to put the consumer in serious financial difficulties.

During the foundation stage of the smart meter rollout, the Consumer Service has already seen a number of cases where large backbills have been triggered when a smart meter is installed and a final reading is taken from the old traditional meter.

## Chapter 5

### Question 1: Do you think we have identified the consequent impacts of the preferred policy option?

Citizens Advice has not identified any further consequent impacts on the licence conditions or wider regulations.

### Question 2: Do you see any issues with our implementation approach?

We agree that progress towards establishing the TRAS should be considered when setting a timetable for changing the meter obligations.

Given the important role that they play in protecting consumers, we would also urge Ofgem to consider the progress of industry compliance with SLC 21B, the new PSR requirements, the MISG risk-based framework, and the smart billing proposals, to ensure that these are in place to protect consumers before making any changes to the existing meter inspection obligation.