

Title: **Response to Ofgem's consultation- ROMA:
Decision and consultation on transition to
smart meters**

Synopsis: To document the AMO's response to the Ofgem
consultation.

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1. Introduction

1.1. Purpose

This document is the response to the consultation from Ofgem dated December 2011, seeking views on the “Review of Metering Arrangements: Decision and consultation on transition to smart meters.”¹.

This response is not confidential.

1.1. Background

The Association of Meter Operators (AMO) is a trade association representing the interests of its members. There are twenty-one members² of the AMO who include all of the active electricity Meter Operators and the largest gas Meter Asset Managers. Many of these companies also own significant quantities of metering assets, either directly or through associated companies.

The term MAM is used throughout this document to include both the gas metering term Meter Asset Manager and the electricity term Meter Operator.

1.2. Member Involvement

Many of the AMO members are undoubtedly providing their own response directly to Ofgem. This AMO response does not necessarily represent the agreed views of every member on each issue. This response has been prepared by the AMO Consultant on behalf of the AMO members based on views expressed through individual discussion, meetings and written comments provided by members.

The AMO membership is grateful for the on-going dialog with Ofgem, on a range of issues. The AMO membership would welcome the opportunity to provide any further clarification or discussion of any of the issues raised by this response.

1.3. Key Messages

- Ofgem should clearly state as soon as possible that the ‘meter provision of last resort’ will be removed from GDNs in 2014. This will enable suppliers and MAMs to develop appropriate commercial arrangements; and for GDNs to plan their workforce and other consequential changes.
- It would be inconsistent for Ofgem to impose on the GDN *any* obligations associated with smart metering. The Government has already established a policy that it shall be provided on a competitive basis through Supplier agents
- It would appear unnecessary for Ofgem to determine how GDNs should deal with the declining number of legacy non-smart assets beyond 2014. Each GDN can make their own commercial decisions of how to manage the remaining obligations.
- Any obligation to provide emergency metering work should be placed on the Supplier, who will in turn discharge through their contracted MAM(s).

¹ www.ofgem.gov.uk/Markets/sm/metering/tftm/roma/Documents1/ROMA%20Final%20Decision.pdf

² www.meteroperators.org.uk/members.php

2. Consultation Questions

2.1. Question 1

What do you consider are the pros and cons of our approach to managing traditional metering in the transition to smart metering?

There has been recent discussion within the DECC programme of the scope of the smart meter mandate. It is expected that 'smart' gas meters will be required for up to 11m³/h, and 'advanced' meters above this level. This will be consistent across all domestic and non-domestic customers. There is nothing to stop a 'smart' meter being developed for the larger meters, and they would be allowed, as they would also meet the requirements of an 'advanced meter'. Based on this understanding there are two markets to consider, the issues described in the consultation paper differ for each market.

- The up to 11m³/h market - *smart*

The smaller meters will be required from a date in 2014 to be smart meters when installed from new, or when requiring replacement. The consultation document addresses this market sector.

- Beyond 11m³/h market - *advanced*

The larger meter sizes will probably not require the gas meter to be physically replaced, but will require the addition of data capture equipment to enable conversion to an 'advanced meter' installation. The 2014 smart meter mandate will not be relevant for provision of meter, although it will require co-incident provision of a data logger.

This is further confused by the use in the GDN standard licence conditions³ Condition 8 requires the distributor "...to provide through a Meter Asset Manager and install at the premises of a domestic customer a gas meter owned by it and of a type specified by the shipper...". A domestic customer could have metering of any size, typically 6m³/h, but nothing to stop it being any larger size. Particularly since the publication of Ofgem's decision letter⁴: Classification of premises for the purposes of the standard conditions of the gas supply licence. This has reinforced the Ofgem view that domestic customers in some large premises (with large gas meters) should be regarded as domestic supplies within the licence conditions.

As a general principle the AMO wish to see the lifting of regulations which limit or distort competition in metering services. The Government's decision to introduce smart metering through competitive provision by suppliers has further reinforced this view.

2.2. Question 2

Do you consider that our assessment of the related issues within the metering market is accurate?

No. The two distinct market sectors identified above have not been explicitly considered. The consultation is focused on the smaller 'smart' meter market. Ofgem should explicitly state that the non-domestic and larger meter market is already competitive.

While we understand the statement in paragraph 3.8 that the 'cost/meter will increase as the number of meters reduces', it is difficult to understand the statement "...and greater maintenance costs", because most of the smaller meters do not receive *any* routine maintenance. Once there are no new or replacement meters to be fitted, post 2014, the "GDN MAM" activity therefore predominantly becomes a role of managing data associated with the declining portfolio of meters until they are removed. The GDN MAM will wish to highlight the meters within the remaining portfolio that the supplier should target to replace as they are approaching 'end of life'. There will only need to be a limited field force to perform any routine maintenance of the remaining larger meters. An aging population of prepayment meters may generate a greater number of 'maintenance calls', although some suppliers may prefer to use these visits to replace aging prepayment meters with smart meters. Due to the perverse incentives of the 'tariff cap' the portfolio of meters probably is more skewed to prepayment meters.

³ http://epr.ofgem.gov.uk/document_fetch.php?documentid=14307

⁴ www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=149&refer=Markets/RetMkts/Compet

Paragraph 3.9 refers to meters removed early in their lifecycle being available for reuse. This is contrary to the expectation that all new and replacement metering below 11m³/h will be smart meters from 2014. These smaller 'non-smart' meters will not be reused.

2.3. Question 3

How should emergency metering services be provided for in the transition to smart metering?

The provision of an emergency service should be procured directly by suppliers on a commercial basis from their contracted MAMs. The GDN's Post Emergency Metering Service (PEMS) scope effectively applies up to 11m³/h market where a meter failure would require replacement with a smart meter. PEMS activity is provided on a 'reasonable endeavours' basis, the prime objective of the GDN is to rapidly attend uncontrolled gas leaks.

In many forums the GDNs have highlighted that their 'first responder' workforce will require to be increased during the smart meter roll out because the increased metering activity will reveal problems that require immediate attention. Removing the direct involvement in metering should minimise this resource constraint.

AMO has been very concerned about the significant number of meters changed under the current PEMS arrangements. We have highlighted this to Ofgem in repeated consultation responses for many years. The following approach would ensure:

- effective competition in the metering service market,
- only truly faulty metering equipment was replaced
- enable smart meters to be correctly installed and configured to the suppliers requirements, and
- protect the customer with a timely service

The following sequence is proposed as the result of a perceived gas escape from a customer:

- Customer rings to notify of gas leak,
- GDN first responder identifies a problem at site,
- The GDN first responder would make safe, resolving the issue if within the time and cost limits where not associated with the metering equipment,
- If it is believed that the problem is with the metering equipment, then the first responder would contact the supplier and leave the site safe, informing the supplier that a MAM should attend,
- The Supplier would contract with their own MAMs to attend site in line with contracted timescales,
- The Supplier response obligation should be in alignment with the existing SI guaranteed standards. Some suppliers would choose to exceed this obligation,
- MAM would attend site and check metering equipment replacing equipment, only if required,
- If metering equipment needs replacing, then the replaced equipment can be configured in line with the supplier's commercial requirements.

This would apply to non-smart and smart meters after 2014. When attending 'non-smart' metering problems the Supplier may require their MAM to replace any non-smart meter with a smart gas meter.

The Statutory Instrument: Gas (Standards of Performance) Regulations 2005⁵ Reg 5 already applies to Suppliers in respect of prepayment meters. The Ofgem 2011 'spring package' has reiterated that smart meters are regarded as prepayment meters. So there is already an obligation on suppliers to have a MAM capable of providing a service to meet these obligations – every day of the year. These regulations have existed for many years and have 'stood the test of time' for pre-payment customers who are often regarded as the most vulnerable customers. This gives some reassurance that resolution in the timescales required by the SI could satisfy all customers who have faulty metering.

It may be appropriate for Ofgem to widen the obligations on Suppliers either to:

1. all domestic gas meter faults
2. all domestic and/or small business meter faults

⁵ www.legislation.gov.uk/ukxi/2005/1135/contents/made

3. all smart and non-smart meter faults, irrespective of whether the meter is operating in credit or 'pay as you go mode' This becomes an effective replacement for PEMS.

The most recent PEMS statistics are attached at the end of this document. They illustrate that the PEMS activity is significantly higher than the anticipated fault rate of gas metering equipment. According to the statistics 11% of all emergency gas leaks are attributed to metering equipment. It is suspected that there may be other commercial incentives under the PEMS arrangements to change more metering equipment than is actually necessary for technical reasons. The PEMS activity is estimated to cost this industry in excess of £5 million a year.

The industry is therefore paying for the provision of two call out regimes, one to meet the existing supplier obligations (under the SI) and a second through the PEMS arrangements. This is a duplication of costs.

The current PEMS arrangements were established as a transitional arrangement from the monopoly services to a competitive metering arrangement. As competitive gas metering services have not developed as anticipated, smart metering roll-out provides an effective trigger to remove the last remnants of the monopoly arrangements.

There will be a small and growing number of "smart meters" fitted between now and 2014. Where these are deemed to need replacement then the current PEMS arrangements they will be replaced with a non-smart meter. Until SMET2 is mandated there it is a reasonable chance that any replaced meter would not be interoperable with the remaining equipment and will require bespoke configuration by the Supplier's appointed MAM. Any supplier can withdraw from the PEMS provision, subject to notice, and follow the processes described above, so that the GDN 'make safe' and their own MAM will [promptly] attend to replace the defective metering equipment.

Post 2014, the smart arrangements will require anyone attending a smart metering fault to be able to:

- Investigate faults on metering equipment – if there is no fault then satisfy themselves that there is no fault on the metering equipment. If there is a fault, then,
- Replace as little of the metering equipment as necessary to ensure safe continued operation, within the constraints of the Supplier's commercial arrangements
- Replace the meter – all new *and replacement* below 11m³/h meters post 2014 are required to be smart meters
- Re-establish communications between the smart metering system
- Re-establish the credit/debit position and communicate all other relevant technical details to the supplier and DCC
- Return the removed metering equipment to its owner with appropriate supporting information to explain reasons for removal.

If the GDNs provide a 'smart' PEMS service, then their costs will increase considerably, as will the complications associated with provision of smart metering and the required security of information. As described in paragraph 3.17 of the consultation document. It will be difficult to determine these costs, how they are recovered. Any GDN provision of a PEMS activity must ensure that there is no cross subsidy from their GDN activity.

Utilising, or expanding, the obligations within the Statutory Instrument: Gas (Standards of Performance) Regulations will ensure that the 'customer experience' is not adversely affected. Suppliers will be obliged to respond to metering faults in a timely manner. It also clearly puts the obligations on Suppliers to resolve metering faults rather than GDNs. It is Suppliers who have the obligation to provide and ensure metering is operational and they also have the commercial incentive to ensure an effective customer service at the lowest cost possible.

If Ofgem proceed on this basis then giving sufficient notice that these arrangements will take effect it must give sufficient notice to industry to make the necessary commercial and operational changes to facilitate a smooth transition.

2.4. Question 4

How should emergency metering services be provided, for smart meters?

Any emergency service provision should be provided by the Supplier's contracted MAM, underpinned with timeliness provisions through the SI. As described above in response to question 3. This approach would apply to all non-smart and smart meters after 2014.

2.5. Question 5

Which is your preferred option for managing the transitions and why?

The electricity market for larger electricity meters has been competitive since 1994. Customers are accustomed to contracting directly with a meter operator for the provision of metering equipment (and/or associated data services). This approach has significant advantages for encouraging competition. Large gas metering equipment can be a significant capital expenditure, competition enables innovative commercial arrangements to evolve. The GT licence condition only applies to domestic meters, so non-domestic gas metering is already a competitive activity.

It is the AMO's view that the same approach should be adopted for gas as when the electricity market removed the licensed provision obligation in 2007. Ofgem publish a date, say 1st April 2014, beyond which GDNs shall not be obliged to provide a meter provision activity for new (or replacement) meters. This will give sufficient notice for customers and gas shippers/suppliers to make alternative contractual arrangements for new meter provision from 2014. If the respective companies wish to provide a MAM or MAP service they can establish a separate, non-regulated activity, without any cross subsidy, to provide commercial metering services.

The meters provided under regulated arrangements as at 1st April 2014 would continue being rented under the existing regulated return. As they reach the end of life, or are removed under the smart meter roll-out plans, they will be replaced with commercially procured meters. So after a number of years (mostly by 2019) the number of meters will have substantially declined. At any point the GDN can choose to sell their remaining portfolio of meters to another organisation. If there are remaining concerns, a review in, say five years, can reconsider the market at that time.

2.6. Question 6

Under option C, is it appropriate to carry out a price control review?

As described above, the obligation for provision of new and replacement meters would cease in 2014. Between now and 2014 it would be possible to significantly increase the price cap for newly provided meters, this may encourage a quicker mobilisation to commercial meter provision, whilst also enabling GDNs to recover a cost reflective charge. The GDNs should not be able to vary their charges for assets already installed.

Paragraph 3.25 suggests a mechanism where GDNs could transfer their obligations to a 'Backstop MPOLR'. There is nothing to stop them doing this already through commercial negotiation. It would be up to the GDN companies if and when they choose to retain or dispose of the metering assets provided under Condition 8 to another company.

Paragraph 3.25 refers to 'new' meters. If the backstop arrangements cease in 2014 there will not be any 'new' meters after 2014 provided by GDNs. After that date all new and replacement meters are required to be smart or advanced meters and would be provided on a commercial basis by commercial MAM/MAPs under contract to Suppliers (or customers).

A significant advantage of competitive arrangements is that commercial decisions determine the resolution of the 'tangled web' that this industry has created under regulation!

2.7. Question 7

Which of our revenue restriction options do you consider is appropriate and why?

Moving to a fully competitive market will remove the need for regulation of new metering assets. Over the next two years most Suppliers are expected to ramp up their own procurement of metering as they start fitting smart meters. The larger meters are already increasingly procured on a commercial basis.

The remaining legacy meters will decline in number rapidly between 2014 & 2019

2.8. Question 8

If you are a GDN, would you prefer to transfer MAP ownership of your traditional meters (i.e. full transfer), or to subcontract new requests and the management of historical stock (i.e. partial transfer) or continue to manage your own meters?

The AMO is not a GDN.

2.9. Question 9

If you are a commercial meter operator (CMO), do you envisage a point in the smart meter rollout where you would be interested in consolidating your traditional meters?

Ofgem's stance to date is that commercial metering services and provision were for the respective parties to resolve and beyond the interest of the regulator. It reinforces this point in paragraph 2.6 of this consultation document. If commercial parties wish to transfer, or sell, their assets they will make a commercial decision whether or not to do so.

2.10. Other points

Paragraph 1.12 of the consultation document recognises the issues associated with iGT networks. We would wish Ofgem to require iGTs to separate their metering and network charges and operate in a same way as all networks, such that the supplier (or customer) contracts for the provision of metering, independent of any network charges. The Government's policy of ensuring all new and replacement meters are smart meters from 2014 will require changes to reinforce the obligation on iGTs to enable free choice of MAM.

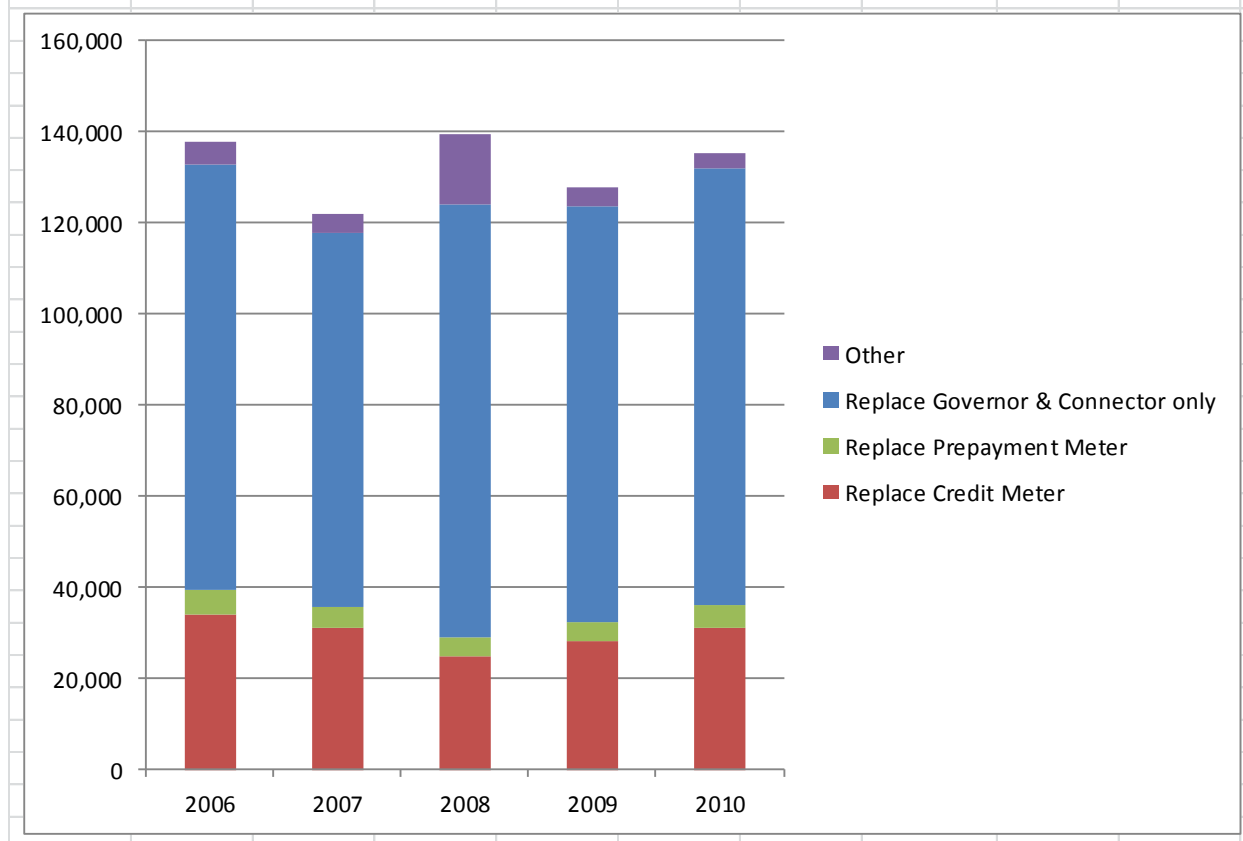
Where any MAM or MAP is associated with a GT activity the costs should be clearly transparent between GT & MAM in a non-discriminatory manner.

We welcome Ofgem's support in paragraph 2.6 – "...we continue to support efforts by the industry to improve transparency and consistency..." It is disappointing that further efforts were not taken to remove the last resort obligation shortly after electricity obligations were removed in 2007.

3. PEMS Statistics

The AMO has repeatedly commented that the PEMS activity is significantly higher than the anticipated fault rate of gas metering equipment. It is suspected that there may be other commercial incentives under the PEMS arrangements to change more metering equipment than is actually necessary for technical reasons. Following statistics have been sourced by Ofgem from GDNs. Numbers are 'chargeable' work and *do not* include work done under GDN licence obligations.

Numbers of Activities per calendar year	Replace Governor & Connector only	Replace Credit Meter	Replace Prepayment Meter	Other	PEMS total	Emergency call outs	Call outs resulting in PEMS	Call outs resulting in meter change
2006	93,132	34,064	5,548	5,080	137,824	1,170,174	11.8%	3.4%
2007	82,044	31,068	4,695	4,036	121,843	1,146,164	10.6%	3.1%
2008	95,079	24,671	4,520	15,294	139,564	1,101,164	12.7%	2.7%
2009	91,052	28,056	4,447	4,092	127,647	1,197,333	10.7%	2.7%
2010	95,885	31,211	5,057	3,230	135,383	1,181,870	11.5%	3.1%
five year total	457,192	149,070	24,267	31,732	662,261	5,796,706	11.4%	3.0%



Numbers of Activities per calendar year		Replace Governor & Connector only	Replace Credit Meter	Replace Prepayment Meter	Other	PEMS total	Emergency call outs	Call outs resulting in PEMS	PEMS Change by Company
2006	NGG	47,789	17,820	2,988	2,708	71,305	566,764	12.6%	
	W&W	14,156	4,282	560	712	19,710	118,772	16.6%	
	Northern GN	9,951	3,812	516	n/a	14,279	144,232	9.9%	
	Scotia - Scotland	4,029	2,433	484	508	7,454	124,233	6.0%	
	Scotia - south	17,207	5,717	1,000	1,152	25,076	216,172	11.6%	
	total	93,132	34,064	5,548	5,080	137,824	1,170,174	11.8%	
proportion of activity		76%	28%	5%	4%				
meter type replacements			86%	14%					
2007	NGG	44,270	17,262	2,750	2,174	66,456	560,335	11.9%	-7%
	W&W	11,304	4,185	460	651	16,600	114,714	14.5%	-16%
	Northern GN	10,659	3,052	499	n/a	14,210	152,796	9.3%	0%
	Scotia - Scotland	2,659	1,983	327	376	5,345	113,723	4.7%	-28%
	Scotia - south	13,152	4,586	659	835	19,232	204,596	9.4%	-23%
	total	82,044	31,068	4,695	4,036	121,843	1,146,164	10.6%	
proportion of activity		67%	25%	4%	3%				
meter type replacements			87%	13%					
2006/2007 change		-12%	-9%	-15%	-21%	-12%	-2%		
2008	NGG	53,176	9,254	2,378	12,762	77,570	554,373	14.0%	17%
	W&W	13,047	3,860	662	595	18,164	110,308	16.5%	9%
	Northern GN	10,525	3,050	482	n/a	14,057	122,235	11.5%	-1%
	Scotia - Scotland	4,992	2,900	357	753	9,002	113,949	7.9%	68%
	Scotia - south	13,339	5,607	641	1,184	20,771	200,299	10.4%	8%
	total	95,079	24,671	4,520	15,294	139,564	1,101,164	12.7%	
proportion of activity		78%	20%	4%	13%				
meter type replacements			85%	15%					
2007/2008 change		16%	-21%	-4%	279%	15%	-4%		
2009	NGG	35,365	12,186	2,236	1,431	51,218	666,841	7.7%	-34%
	W&W	16,914	4,354	770	371	22,409	108,686	20.6%	23%
	Northern GN	8,043	1,929	208	776	10,956	117,806	9.3%	-22%
	Scotia - Scotland	5,168	3,060	438	558	9,224	107,256	8.6%	2%
	Scotia - south	25,562	6,527	795	956	33,840	196,744	17.2%	63%
	total	91,052	28,056	4,447	4,092	127,647	1,197,333	10.7%	
proportion of activity		75%	23%	4%	3%				
meter type replacements			86%	14%					
2008/2009 change		-4%	14%	-2%	-73%	-9%	9%		
2010	NGG	41,006	14,970	2,916	1,349	60,241	635,206	9.5%	18%
	W&W	17,252	4,626	679	273	22,830	113,009	20.2%	2%
	Northern GN	8,010	1,987	151	802	10,950	130,357	8.4%	0%
	Scotia - Scotland	5,998	3,336	515	366	10,215	109,839	9.3%	11%
	Scotia - south	23,619	6,292	796	440	31,147	193,460	16.1%	-8%
	total	95,885	31,211	5,057	3,230	135,383	1,181,870	11.5%	
proportion of activity		79%	26%	4%	3%				
meter type replacements			86%	14%					
2009/2010 change		5%	11%	14%	-21%	6%	-1%		
	cost/activity	£ 40	£ 60	£ 190	£ 30	Total			
	2006	£ 3,725,280	£ 1,362,560	£ 221,920	£ 203,200	£ 5,512,960			
	2007	£ 3,281,760	£ 1,242,720	£ 187,800	£ 161,440	£ 4,873,720			
	2008	£ 3,803,160	£ 986,840	£ 180,800	£ 611,760	£ 5,582,560			
	2009	£ 3,642,080	£ 1,122,240	£ 177,880	£ 163,680	£ 5,105,880			
	2010	£ 3,835,400	£ 1,248,440	£ 202,280	£ 129,200	£ 5,415,320			
Notes:									
Some activity classification may differ between companies									
Replacing meters, may also include replacing regulators									
In some cases number of emergency calls has been reverse calculated									
Charges are an estimate to give a financial significance									
Some published numbers and published totals, slightly differ									
Ofgem 2008 info request: http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=188&refer=Markets/sm/metering/crf/competition/gas									
Ofgem 2011 info request: http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=194&refer=Markets/sm/metering/crf/competition/gas									