British Gas
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Dear Steve

Review of Metering Arrangements
Consultation on transition to smart meters

British Gas welcomes the decisions set out in the document published in December 2011.

I am pleased to attach our response to the additional questions set out in the document, covering the transition from traditional to smart metering. This is a unique moment for UK energy metering and an opportune time to challenge the existing arrangements, as the ROMA consultations have done.

In our view there is no enduring requirement for a meter provider of last resort and we believe that this role should end once smart metering is mandated. We believe that this would encourage the establishment of a market-driven solution that will benefit the industry and its customers. The switch to smart metering provides a well-defined and clearly signalled point at which to make that change.

We would be happy to provide further information regarding our response if required.

Yours sincerely

Steve Briggs
Head of Industry Codes and Metering Regulation

Question 1: What do you consider are the pros and cons of our approach to managing traditional metering in the transition to smart metering?

1.1 We agree that the obligation on Gas Distribution Networks to provide gas metering services should be reviewed and argued in favour of its removal in our response to the ROMA consultation in February 2011. In our opinion, its perpetuation has not served the cause of metering competition well. Suppliers today are responsible for arranging meter provision and appointing accredited Meter Asset Managers so we do not see the supplier-leadership of the roll-out of smart metering as a significant change in industry governance. Many have chosen to contract with GDNs, the incumbents, because new entrants have found it so difficult to compete. GDN charges for pre-payment meters have been cross-subsidised on policy grounds and charges for credit meters are suppressed through density which no new entrant can match. This has made pre-payment in particular available at less than the true market rate and removed any stimulus to competition in gas metering provision.

1.2 We recognise that removal of the obligation must be managed in a way that minimises any risk of service disruption for customers and believe that giving notice of almost three years is ample. In that period, new providers can be expected to develop service propositions that meet the huge demand that smart metering will bring and competition will ensure that those services are realistically priced.

1.3 British Gas has championed metering competition since its onset and has not been a major user of GDN metering services, other than for pre-payment maintenance – a consequence of NGM's inability and reluctance to accommodate the separation of MAM and MAP services – PEMS, and the installation of larger meters (U16 and above). We share Ofgem's disappointment that a more vigorous and competitive market is not yet in place for gas metering and believe that it is now time to end the status quo. We are confident that all suppliers will be able to procure services from alternative providers (in addition to Networks) and that these will then be at the true market rate.

1.4 We do see a role for a large service provider to support larger installations (U16 and above) as this is a particular skill set with low work density which may prove uneconomic for local meter installers to support. We remain confident, however, that this activity will be available at the market rate and would not be surprised to find the GDNs remain as leading providers in this market.

Question 2: Do you consider that our assessment of the related issues within the metering market is accurate?

2.1 Yes, we agree that the assessment is accurate.

Question 3: How should emergency metering services be provided for in the transition to smart metering?

3.1 It is important that there is no degradation in the provision of emergency services as a result of smart metering deployment, or the reduction in the scale of metering operations supported by NGM. In establishing its in-house metering organisation, British Gas considered a 24-hour service provision but concluded that, for customers, an immediate replacement of a dangerous meter was preferable to the promise of a visit from their supplier. This is particularly important for vulnerable customers.

3.2 That remains our position but we recognise that there are some challenges ahead:

a) If GDNs' metering operations contract in scale it may become uneconomic for PEMS to continue

b) As the population of smart meters increases it will become increasingly likely that a comparable meter (or the skills to commission it) are unavailable from the GDN.

3.3 If the cost or quality of service provision proves unattractive, suppliers will seek alternative arrangements. These could include an in-house 24-hour emergency metering service, although our preferred option is the continuation of the existing arrangements.

Question 4: How should emergency metering services be provided, for smart meters?

4.1 With a reducing work volume for metering in normal hours it is our expectation that GDNs may find that provision of PEMS will become more difficult commercially. Further, the volume of work required from such a service can be expected to reduce once the majority of conventional gas pre-payment meters has been replaced. The meter stock and installation pipe-work will be more modern and, it should be assumed, more reliable.

4.2 The only requirement for meter replacement under PEMS should be for those that are dangerous (faults will continue to be a supplier responsibility, covered by Guaranteed Standards). It should be very rare for a meter to require replacement as a safety emergency and we suspect that current commercial arrangements incentivise more exchanges than are necessary. We would be very reluctant to see a smart meter replaced with a dumb meter under PEMS though accept that it may be necessary on very rare occasions. Any need to replace leaking pipework or governors should generally be possible to complete without replacement of the meter.

4.3 If the economies of scale that are currently available to GDNs are eroded, through a combination of reduced in-hours activity and more modern meter assets, we can expect the service to go the same way as UMETS. It is conceivable that an independent standalone business could enter the market for provision of services that are the equivalent of PEMS and/or UMETS, but on the basis of the above assumptions our confidence is low in this materialising as an outcome. We see three possible outcomes from this:

a) Networks carry a stock of removed conventional meters and use them to restore supply. A subsequent visit is required by the supplier to swap the temporary meter with a smart model.

b) Networks are trained and equipped for smart meter installations and replace the leaking meter with a SMETS model. This will increase network

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costs and may extend the length of the visit.

c) Networks make safe and the supplier's MAM is required to replace the meter, potentially extending the time between making safe and restoration of supply.

4.4 Because of the comparative rarity of the need to replace a modern gas meter on safety grounds we do not expect option (b) above to viable in the short term. Our preference is for option (a) in the medium term.

Question 5: Which is your preferred option for managing the transitions and why?

5.1 You note (in paragraph 3.21) that the level of activity in smart meter deployment provides confidence that metering services are available today from alternative providers, supporting the removal of regulated provision. We agree with that assessment and would not, therefore, support Option A, the maintenance of existing arrangements. We do not anticipate any distortion of incentives for suppliers to install smart meters; we believe that the known regulatory changes already create strong incentives for suppliers to minimise or avoid the cost of premature meter replacements and that the existence of a MPOLR will not materially impact this.

5.2 We see no merit in Option C which would re-establish a national provider of gas metering. This would be accelerated if existing assets were transferred to that provider, NGM, an option acknowledge in the consultation and one on which it is proposed not to regulate. Intuitively, this works against the objective of encouraging new market entrants and we are not persuaded that it offers advantages over Option B. This our preferred approach: it provides continuity with a generous notice period in which alternative commercial provision of services can be established and procured.

5.3 As regards exit strategy, we do not think it matters whether it is the obligation or the price regulation that ends, the outcome is likely to be the same. If NGM wanted to stay in the metering business they would need to price their services on a commercial basis and this would encourage the entry of competitors. There is some ambiguity in the consultation over the installation of smart meters (paragraph 3.30). We would not support the provision of smart metering as an obligation on the MPOLR once the 'tipping point' has been passed. That should be the trigger for suppliers to procure services commercially and any participation in that market by GDNs should be through new standalone Meter Service Agreements.

Question 6: Under option C, is it appropriate to carry out a price control review?

6.1 Yes, we do think that a thorough price review is appropriate. It has been a decade since the last review so it is unlikely that adjustments to the current framework would provide an equitable outcome for stakeholders.

6.2 We accept the need for suppliers to compare the regulated service offering with commercial alternatives but believe that a full price review is more likely to close the current differentials and to promote more competition in gas metering services. Although the arrangements are for a period of transition we are concerned at the length of the transition which, coupled with a more superficial charging review, could work to stifle the opportunities for new service providers to become established.

Question 7: Which of our revenue restriction options do you consider is appropriate and why?

7.1 As described above, we think it is important to conduct a thorough pricing review for regulated services. The consultation acknowledges that the Charging Consultation approach is less appropriate if costs are higher than the maximum regulated tariff. With so much time having passed since the current tariffs were set, it cannot be assumed that costs are lower (though we accept that asset costs will drop once smart deployment causes millions of useable meters to be removed)

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?

Not applicable

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?

Not applicable