

**Calvin ASSET MANAGEMENT LIMITED  
METER FIT (NORTH WEST/EAST) LIMITED  
METER FIT 2 LIMITED  
METER FIT 3 LIMITED  
METER FIT ASSETS LIMITED**

**(Collectively known as Calvin Asset Management Limited – Calvin - for the purposes of this response)**

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Steve Rowe  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Dear Steve

**Review of Metering Arrangements: Decision and consultation on transition to smart meters -(175/11)**

**Please treat this response as confidential**

By way of introduction, since 2002 Calvin has been providing MAP and funding services to large suppliers in relation to the provision of domestic gas and electricity meters (smart and traditional) together with associated gas kit and regulators, and communications hubs (comms hubs). Pursuant to the agreements that Calvin has in place with the suppliers it procures meters (and associated kit) and comms hubs from the approved manufacturers, arranges delivery and where required funds the installation costs. The suppliers appointed MOP/MAM is responsible for the installation and maintenance of the meters. Suppliers pay to Calvin an amortised meter provision charge over the life of the meters to recover its investment; this is usually levied on a pence per day basis.

CALVIN also has responsibility for providing MAP services including:

- managing the procurement and logistics process
- managing the manufacturers (including in relation to warranty claims)
- managing the invoicing process
- sending and receiving all data flows
- managing and maintaining portfolio records

Calvin, as one of the first commercial MAPs in the metering market, is accustomed to operating in a changing and dynamic market, and understands what is required to navigate the challenges inherent in the evolving regulatory and market framework surrounding the transition to smart.

Yours sincerely

Kay Houghton  
Smart Metering Development Manager

## **Chapter 1**

### **Smart Metering Implementation Programme**

The on going DECC consultations for Smart roll out is not clear as to how certain crucial issues (e.g. churn and interoperability, changes to industry systems and migration to DCC) will be resolved. Calvin believes it is vital for it as a MAP, and for its customers, that it is at the forefront of the debates for these issues and has the market presence to influence the outcome of the discussions in a way to maximise value for both MAPs, and Calvin's customers. This is a role we have extensive experience of and are comfortable with. Calvin has been at the forefront of industry change in the Gas industry since its inception. In particular, Calvin was instrumental in the growing recognition of the MAP as a valid Market Participant by backing changes to RGMA via SPAA to implement MAM to MAP flows and is currently working with SPAA and Xoserve in drafting reporting requirements from Xoserve (with associated governance changes) to allow MAP related data to be released to the MAP.

In addition to responding to Ofgem consultations Calvin is currently directly engaged with, or influencing the following industry groups relevant to smart roll out:

- DECC – Smart Metering Implementation Programme, consultations, workshops, working groups such as SMWG2.
- Community of Meter Asset Providers – Set up in Dec 2011 by Calvin and sitting as the Chair to influence the market with a community of commercial asset owners to prepare for the Smart Metering Roll out by engaging directly with DECC. Calvin is a body of 10 MAP organisations working together to ensure that the industry process risks during the smart meter deployment in the foundation and mass roll out are addressed to enable commercial interoperability to be maintained.
- SPAA Expert Group – Working with Xoserve via the SPAA SEG, to explore new ways of getting access to data to minimise risk to MAP and Suppliers on churn for both Smart and Traditional metering.

Calvin is therefore very positive about the move from traditional metering to smart. Although we acknowledge the transition will be challenging, we are accustomed to operating in a dynamic and competitive market, and believe that being both responsive and flexible is the key to successfully navigating the evolving market and regulatory structure surrounding smart and that some small key changes in the Gas market structure will enhance the transition.

### **Regulation of Early Smart**

In general, commercial arrangements on change of supplier operate slightly differently for Gas and Electricity in the domestic metering market.

When a change of supplier event occurs in the domestic electricity market the relevant market participants are notified of the event by industry flows to all market participants including both the MOP and the MAP. This allows either party to arrange commercial agreements for the rental of the meters with the relevant Supplier.

It is wholly inconsistent that the two fuels work to different rules where different market participants are recognized, have and differing access to data, particularly given the appetite for harmonization between the fuels especially with the advent of Smart.

We recognise that some aspects of commercial interoperability have been addressed for the transition to smart, however some current failings in the market for conventional metering risk being unaddressed and carried forward in to the smart meter market.

Current failings include those of meter asset data tracking and a lack of MAP churn contracts which lead to inefficiencies, additional costs from risk premiums and drive unnecessary meter changes.

These issues, if unaddressed, will translate into issues for consumers from unnecessarily higher overall costs and disruption from unnecessary meter changes on change of supplier. Addressing these current market failings and noting that there will need to be a recognition of the Foundation Provider (DCC interim) services to keep the meters smart on churn will also ensure maximum benefit for consumers from smart meters;

## **IGT**

It is vital for customers connected to IGT networks that they have the same access to smart metering as non IGT network population. It is therefore highly imperative that the IGT's are subject to the same industry regulations and processes as the wider community. At the moment commercial meters deployed on a IGT network cannot be tracked effectively through lack of governance and adherence to RGMA processes leading to higher commercial risks when considering commercial meter deployment.

## **National Grid – Metering competition**

Within Calvin, we believe that the transition should be supplier lead and that Suppliers should be able to appoint their own MAM/MOP to legacy assets to enable them to manage the Supplier lead roll out more effectively and at least cost as detailed in the Ofgem open letter - "Proposed terms of alternative contract between National Grid and Suppliers in respect of certain domestic gas meters" dated 13<sup>th</sup> March 2012 which states that

"For the avoidance of doubt, it is open to parties to seek to negotiate alternative terms, to decide not to enter into the new proposed agreements (the new MSA), or to enter into arrangements with National Grid's competitors in this market."

## **Chapter 2**

### **Commercial Interoperability**

We note with interest and some concern that Ofgem has concluded that, in broad terms, the current arrangements in metering are fit-for-purpose. Whilst we would agree that some core market aspects appear to be working well, though Calvin remains concerned that some key issues in relation to metering arrangements remain unaddressed.

We agree that to facilitate the efficient switching of customers between suppliers there is a need to ensure that the commercial metering services contracts can be transferred between suppliers. We also agree that this transfer of commercial contracts relies on 'commercial interoperability' of the commercial arrangements around meters, including to avoid the unnecessary replacement of metering assets (or 'meter exchanges'), which we also agree is inefficient and causes inconvenience for customers.

We disagree that there are sufficient existing commercial incentives to avoid unnecessary exchanges of traditional meters. It is particularly important to ensure that market failings in traditional metering are addressed both for the benefit of that market and so as not to affect the smart meter market in the roll-out. Even if it proves that regulatory intervention is not appropriate Ofgem still needs to lend its support to beneficial changes to industry arrangements.

Although Ofgem does not consider that significant regulatory change is warranted in order to protect the interests of consumers we are seeking Ofgem's support in securing some industry changes including through the code governance processes. We note that Ofgem welcomes industry initiatives to improve commercial interoperability further and that Ofgem recognises that the rollout of smart metering could change the commercial incentives in this area and is keeping this under review.

We note with particular interest your position on commercial interoperability in relation to data and that you encourage industry to improve relevant information and data flows to enhance the change of supplier process and avoid meters being removed prematurely on change of supplier. We have some proposed solutions in relation to this topic that we believe you will find valuable to consumers and market parties.

Ofgem will should note that Calvin is not looking to highlight problems without proposing solutions and we are keen to continue working closely with Ofgem and DECC to secure mutually beneficial outcomes. We agree that commercial terms associated with smart meters may be inherently more complex than the commercial terms for traditional meters so it is important to address any basic market failings for traditional meters now. It would distinctly undesirable for existing issues to add further commercial complexity to those issues that will arise in smart.

We believe that Ofgem is right to be concerned that failure to agree commercial arrangements for meters on change of supplier could result in meters being removed from the wall prematurely and this is evidenced by some suppliers raising concerns regarding commercial terms for meter contracts including early termination charges. We note that Ofgem has not received specific examples or evidence to suggest that the differences in commercial contracts were resulting in the premature replacement of traditional meters, however we believe that this is because it is very difficult to identify the full volume of unnecessary meter changes due to poor asset tracking data caused by failings in industry systems. Until data recording and access arrangements are improved to track meter assets and identify all unnecessary meter changes it will be very difficult to demonstrate the full extent and details of existing market process and contractual failings that are creating unnecessary meter changes and unnecessary disruption for consumers.

We note also that Ofgem will keep interoperability issues under review and will reconsider its position in the light of any new evidence that customers may be disadvantaged by these arrangements. We appreciate the importance Ofgem places on evidence details of which can be provided on request.

### **Chapter 3**

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

We are concerned that Ofgem appears to be talking a light touch regulatory approach on most of the issues covered by the review and this is only appropriate if necessary changes can be secured by other means. We would therefore urge Ofgem to reconfirm its support for beneficial industry changes that are being developed and promoted by industry parties including Calvin.

Owners of meters need to be able to track their assets from installation, through change of supplier, to removal for reuse or proper disposal. Current arrangements in existing industry code governance and data systems continue to present significant risks and create data access failings. The failings translate into increase metering costs in two ways;

- Inefficiency costs from needing to manually intervene in obtaining routine meter tracking data, including staff costs, are translated into higher rentals; and
- The costs and loss of income from meters that can't be traced are recovered across other meters in the owner's portfolio via risk premiums that again translate in to higher rentals

While meter asset providers (MAPs) charge meter rentals to energy suppliers the costs ultimately fall to consumers.

Noting that Ofgem intend an evidence-based approach, we would point to the party arrangements in gas and electricity being fundamentally different. While improvements are required in both electricity and gas industry systems the current facilities in gas are particularly unsupportive of efficient asset tracking.

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

The Electricity market is working well as it recognises that the MAP and MOP functions operate Independently which provide transparency of data and asset visibility via access to the industry central database ECOES. It also recognises the commercial relationship between MAP and Supplier for the recovery of meter rentals both on initial installation and any subsequent change of supplier event. There is, however, still missing information and incorrect use of the processes which is detailed below and for which evidence can be provided.

In comparison, the current Gas metering arrangements do not provide the same framework in which to operate because the MAM and MAP roles are not separated and are considered to be a 'bundled' offering thereby being co-dependant.

The mandated Gas RGMA changes, that came into effect in June 2011 for MAM to MAP and MAM to MAM dataflows; have aided the level of asset visibility, however this information still falls considerably short of the transparency of data and asset tracking provided for in Electricity, most notably the absence of a MAP Id in the legacy systems.

Furthermore, following the introduction of these new mandated flows, Calvin requested that SPAA monitor the use and effectiveness of these flows and hold regular reviews after introduction. This has not happened and as a result there are several issues still outstanding with the MAM to MAP and MAM to MAM dataflows which need to be addressed quickly and with Ofgems support.

As a result of the above MAP's are experiencing difficulties in tracking gas meter assets because:

- Not all MAM's are sending the MAM to MAP flows to the correct MAP;
- Some MAMs are de-appointing the MAM and then appointing their own MAM and MAP thereby incorrectly assigning their MAP Id to our assets;
- Some MAM's are incorrectly populating the MAM to MAP flow as there is still a dispute over which data items are mandatory;
- Notification of removal of assets is not always or not being received by MAPs; The reason for the removal of a meter is not transparent;
- Not all MAM's use the same communication methods, as commercial MAP's we operate RGMA using DTN and email, not IX which is a NGM Rainbow system;
- There is no central registration of "MAP ID" making asset tracking manually intensive; and
- Current industry governance in gas is not broad enough to accommodate the industry changes brought about by the introduction of competition in the gas market 2002;

There are issues in tracking electricity meters are fewer, but changes are required to address the following:

- Notification of removal of assets is not always or not being received by MAPs;
- The reason for the removal of a meter is not transparent;
- Some electricity MOP's are changing the MAP ID on appointment back to the regulated/legacy asset provider ID; and
- Code governance arrangements do not always support the enforcement of corrective actions.

As a MAP organisation that relies on the provision and transparency of data, we consider that enhancing the visibility of assets by the separation of MAM and MAP with the MAP data being

held centrally, as in the Electricity market the MAP being registered as a valid market participant; coupled with robust commercial arrangements with each individual party would make the Gas market more effective.

During the foundation stage of the smart meter roll out and moving into mass roll out there is a genuine opportunity to recycle traditional meters and other associated activities required on the removal of traditional assets which will reduce the stranding costs of the traditional meter provision and provide for the efficient disposal of traditional metering assets.

### **Churn contracts**

Ofgem's findings include that participants were generally unsupportive of regulatory measures, such as mandating a standard form of contract as they considered the uncertainties and costs associated with such regulation would outweigh any potential benefits. CMAP remains convinced that some improvements in minimising the likelihood of smart meter exchange in the event of consumer churn, and the potential for securing reasonable/commercial MAP contracts between energy suppliers and meter owners are maximised, to ensure that fit for purpose and compliant meters should stay on the wall wherever possible.

Specifically the absence of a reasonable "light touch" framework will create risks for MAPs due to potential breaks in the flow of rental income on a short and/or long term basis. These risks (perceived or actual) can create higher costs for consumers through actual or even possible unnecessary smart meter changes. While we agree with Ofgem and DECC that smart meters that are technically suitable should stay on the wall through a change of supplier event and that industry arrangements should support this, in our experience, this commercially rational approach is not always adopted by some energy suppliers who have differing behavioural drivers. Essentially, the absence of a framework/arrangements for promoting reasonable and commercial churn contracts between suppliers and MAPs present three potential issues:

- Possible breaks in meter rental income through change of supplier affect financial returns and create the need for potentially unnecessary risk premiums that will drive up overall meter rental charges (ultimately funded by consumers). This will be particularly apparent in the start up phase of the rollout when energy suppliers behaviours with respect to smart meter use or removal are largely unknown, and churn contracts based on experience will be a low priority.
- Where the incoming supplier fails to pay MAP rental charges, or fails to agree terms with the MAP, the MAP would rightly seek removal of the meter for use elsewhere. Suppliers who have sole right of access to a property are often not co-operative in allowing the removal of a meter, even when they won't pay rental for it, thereby setting the industry up for potential litigation between MAPs and energy suppliers which would delay or stop the funding of smart meters until the issues had been resolved in court. This is the same issue that exists today with traditional meters and examples can be provided.
- Unnecessary meter changes not only lead to inconvenience for consumers, but also unnecessary site visits and the associated costs that will detract from the overall cost to serve savings intended from smart meters.

**Proposed solution** – We would suggest that the Smart Energy Code should contain a number of basic provisions within a "light touch" regulatory framework to ensure that on change of supplier, the incoming supplier pays the MAP its reasonable rental/termination charges.

- If a smart meter installed by any party can be demonstrated by the owner of that smart meter to be a compliant smart meter that meets the minimum industry standards (specifications and interoperability), it cannot be removed by any energy supplier without paying a termination payment until the energy supplier has demonstrated their ability to be able to read and utilise that smart meter according to the minimum published industry standards. This will ensure that an energy supplier cannot remove without payment or refuse to pay rental for a smart meter because they are slow in implementing the processes and systems required to utilise a compliant smart meter. (this was demonstrated in the slow implementation by the Suppliers of RGMA systems from 2004 - 2010)

- If a smart meter installed by any party can be demonstrated by the owner to be a compliant smart meter that meets the minimum industry standards (specifications and interoperability), the energy supplier who wins the energy contract to supply the consumer that has the compliant smart meter installed in their premises, must pay the owners the MAP's smart meter rental for that meter until the energy supplier removes and returns (or makes available for return) that smart meter. This will ensure that energy suppliers must make a decision to pay for it or remove it.
- That energy suppliers and the owners of portfolios of compliant smart meters of a particular size (to be defined/agreed) must enter into genuine contractual discussions with each other in order to try to agree reasonable commercial terms for the rental of churned smart meters. An energy supplier will only be allowed to remove a compliant smart meter when it believes it has used reasonable endeavours to enter into reasonable commercial contractual arrangements with the owner of the meter. Notwithstanding this, the above two bullet points still apply. This would ensure that energy suppliers would have to at least engage reasonably quickly to enter into sensible commercial rental arrangements on churned meters to ensure that the rentals were as low as possible as quickly as possible to the immediate benefit of consumers.

We would welcome the ability to thoroughly workshop these three suggested solutions, and gain the views and input of both DECC and Ofgem on the suitability of these proposed solutions for the envisioned smart meter rollout and regulatory environment.

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

N/A

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

N/A

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

N/A

**Question 6 – Under option c, is it appropriate to carry out a price control review?**

N/A

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

N/A

**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?**

N/A

**Question 9 – If you are a commercial meter operator (CMO), do you envisage a point in the smart metering rollout where you would be interested in consolidating your traditional meters?**

Calvin have concerns regarding the assumptions made within the consultation that CMO's i.e. MAM's and MOP's can determine the 'fate' of the traditional meter assets. Most commercial assets are not owned by the MAM or MOP, these assets are owned by the MAP. Therefore the notion of consolidating assets is unclear as the asset owner would be indifferent to the maintenance of the assets as these activities are carried out by the Supplier appointed MAM or MOP. The MAP's interests would be in the recovery of revenue from the suppliers utilising the metering assets and then the subsequent treatment of the assets on removal i.e getting the asset back for disposal, recovery of warranty etc, recovery of any compensation for removal if that is applicable. The commercial model differs considerably from the NGM model where NGM are MAM to all their metering assets that they own and therefore the role of MAP becomes indifferent.

Calvin are actively involved in the re-use of traditional assets during the transition to smart metering and along with NGM will have to manage the ramp down of the deployment of these assets and the declining of asset life of the assets installed during this period.

**Examples of Evidence available on request**

**Gas**

Evidence of suppliers appointing new MAP ID to Calvin Assets

Evidence of incorrect MAM to MAP flows

Notification of Removals

Recovery of Assets

**Electricity**

Evidence of MOP's changing MAP id back to Legacy ID

Evidence that the D0312 not being sent

Recovery of Assets

Notifications of Removals