



Mr Steve Rowe,
Ofgem,
9 Millbank
London,
SW1P 3GE

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Ofgem ROMA: Decision and consultation on transition to smart meters

Dear Steve,

By way of introduction to the Community of Meter Asset Providers (CMAP), we are a group of meter asset providers (MAPs) that includes Calvin Asset Management, Lowri Beck, Macquarie, Northern Power Grid, Capital Meters, Onstream, Utility Funding Limited, Siemens, Utility Partnership Limited and EDF. The CMAP was formed to review, discuss and propose solutions to a number of concerns that MAPs have in tracking their assets within current industry systems and industry data flows across both gas and electricity. These meetings have been attended previously by representatives from DECC and Ofgem.

CMAP is engaging with DECC, Ofgem, Electralink, Gemserv, SPAA and Xoserve to address ongoing issues within current industry mechanisms which are extremely challenging from an 'asset management' perspective. We are looking for support from Ofgem to continue to build upon a significant amount of work that the MAPs have undertaken in the last year both individually and collectively. CMAP therefore welcomes the opportunity to respond to your proposals, conclusions and invitation to participate in the consultation process on transition to smart meters as part of the ROMA project.



The CMAP notes with 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, the CMAP remains concerned that some key issues in relation to metering arrangements remain unaddressed. Two of CMAP's key areas of concern are firstly, fair access to appropriate meter asset tracking data; and secondly, efficient commercial interoperability to reduce commercial risks and unnecessary meter changes on change of supplier (churn contracts).

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 the avoidance of the unnecessary replacement of metering assets (or 'meter exchanges'), which we also agree is inefficient and causes inconvenience for customers.

We recognise that some aspects of commercial interoperability have been addressed for the transition to Smart. Some current failings in the market for conventional metering however remain unaddressed and risk being carried forward into the smart meter market. Current failings include the lack and paucity of meter asset tracking data and the lack of efficient arrangements for MAP churn contracts which may lead to inefficiencies, potential additional costs from risk premiums and unnecessary meter changes. These issues, if unaddressed, will translate into issues for consumers from unnecessarily higher overall costs and disruption, and unnecessary meter changes on change of supplier. Addressing these current market failings will also ensure maximum benefit for consumers from smart meters.

We disagree that there are sufficient existing commercial incentives to avoid unnecessary exchanges of traditional meters, and such meter changes continue to cause avoidable disruption to consumers. 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 can play a very important role by signalling 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 changes through the code governance processes. We understand 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 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 be distinctly undesirable for existing issues to add further commercial complexity to those issues that will arise in smart.

Ofgem should note that CMAP 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 have therefore some proposed solutions in relation to meter asset tracking data and churn contracts that we believe will translate into valuable benefits for consumers and other market parties.

While Ofgem concluded that it is inappropriate at this time to impose any direct regulatory requirements on suppliers with respect to commercial interoperability of contracts for traditional meters, we are very pleased that you intend to continue to support efforts by the industry to



improve transparency and consistency of contract terms and that you would welcome initiatives to take this forward.

Evidence of market process failings

We welcome Ofgem's intention to keep interoperability issues under review and that it 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 and we have provided some evidence below which highlights issues caused by current market failings in industry data and associated processes. It is also likely that individual meter asset providers will write to you separately with further evidence.

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 may be evidenced by Ofgem's finding that some suppliers raised concerns regarding commercial terms for meter contracts including early termination charges. Such early termination charges are required as a commercial response to the premature removal of fit for purpose smart meters based on the combination of a long life asset, that is being installed at a time of rapid technological change. Quite simply, if termination charges are not accepted by energy suppliers, smart meters which have a design life of at least 10 years will only be able to be funded over a much shorter time frame due to the risk of premature removal by energy suppliers. This will of course increase the rental charges of the smart meters to the ultimate detriment of the UK energy consumer.

We note that Ofgem has not received specific examples or evidence to suggest that differences in commercial contracts were resulting in the premature replacement of traditional meters. We believe however that this may be because it is very difficult to identify the full volume of unnecessary meter changes due to poor access for MAPs to asset tracking data and failings in industry systems. Until data recording and access arrangements are improved to better track meter assets and identify all



unnecessary meter changes, it will be very difficult to demonstrate the full extent of failings in market process and any associated contractual implications.

The electricity market is working relatively well in relation to asset tracking data as it recognises that the MAP and MOP functions operate independently. This provides 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. In comparison, the current arrangements for gas metering do not provide the same framework in which to operate because the MAM (meter asset manager) and MAP roles are not separated and are incorrectly considered to be a 'bundled' offering and therefore co-dependant.

The mandated Gas RGMA changes that came into effect in June 2011 for MAM to MAP and MAM to MAM data-flows have aided the level of asset visibility to some extent; however this information still falls considerably short of the access and transparency of metering data and asset tracking provided in electricity, most notably the absence of a "MAP ID" in the legacy gas systems.

Furthermore, following the introduction of these new mandated flows, MAPs 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 data-flows which need to be addressed.

As a result of the above, MAPs are experiencing difficulties in tracking gas meter assets because:

- Not all MAMs 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 MAMs 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 are not always sent and certainly are not always being received by MAPs;
- The reason for the removal of a meter is not transparent;
- Not all MAMs use the same communication methods, as commercial MAPs 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.

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

- Notification of removal of assets are not always sent and certainly are not always being received by MAPs;
- The reason for the removal of a meter is not transparent;
- Some electricity MOPs 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.

MAP organisations rely on the provision and transparency of data. We consider that enhancing the visibility of assets by the proper separation of MAM and MAP in gas, the MAP being registered as a valid market participant; the MAP data being held centrally as in the electricity market, coupled with robust commercial arrangements with each individual party would make the Gas market much more effective.

These enhancements would not only greatly assist during the foundation stage of the smart meter roll out, but particularly so in moving into mass roll-out where there is a genuine opportunity to



ensure the efficient recycling of traditional meters and the efficiency of activities associated with the removal of traditional meters. This would allow MAPs to:

- Maximise the availability of traditional meters for reuse to reduce the overall costs of traditional meters; and
- Ensure that where meters cannot be reused they are disposed of in a cost efficient and proper manner.

Meter asset tracking data

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 data access failings for meter asset owners. The failings translate into potential increased MAP costs, and subsequently into MAP rental rates in two ways:

- Inefficiency costs from needing to manually intervene in obtaining routine meter tracking data, including staff costs; and
- The costs and loss of income from meters that cannot be traced are recovered across other meters in the owner's portfolio via risk premiums.

While MAPs charge meter rentals to energy suppliers, the costs ultimately fall to consumers.

Noting that Ofgem intends 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.



Proposed solution – MAPs will continue to press for changes in industry systems, via code governance bodies, to secure direct access to the reasonable tracking data to efficiently and effectively manage the physical assets they own. However, we would urge Ofgem to provide its support to MAPs in achieving effective commercial outcomes for the benefit of an open and competitive market.

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. The 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 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 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 affecting financial returns and creating 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 our 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; and
- 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 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 compliant and meet 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 its 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 it is slow in implementing the processes and systems required to utilise a compliant smart meter;
- If a smart meter installed by any party can be demonstrated by the owner to be compliant and meet 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. A number



of examples can now be provided where energy suppliers are happy to use a meter to measure their customers' energy consumption, but then refuse to pay for the meter or return it; and

- 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, thereby reducing risk premiums to ensure that the rental price was 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 them for the envisioned smart meter rollout and regulatory environment.



Ofgem's consultation questions

CMAP would offer the following responses in relation to Ofgem's specific consultation:

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 fully accept that Ofgem prefers a "light touch" regulatory approach on most of the issues covered by the review, as does the CMAP. We also believe however that it would be beneficial for Ofgem to provide obvious support/signals to the process changes we have suggested in this paper, including a requirement for energy suppliers to pay a MAPs traditional meter rentals until the traditional meter is removed. We would therefore request Ofgem to signal its support for these suggested industry changes that are being developed and promoted by industry parties including the CMAP.

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

Not entirely. We believe that existing market gaps create unnecessary costs and risks in traditional metering, and that if the issues we have highlighted remain unaddressed, they have the potential to adversely affect arrangements in smart metering too.



In summary

We note that Ofgem's principal objective is to protect the interests of existing and future gas and electricity consumers by wherever appropriate, promoting effective competition. We fully support this objective. We believe that addressing the issues we have identified via the proposed solutions would reduce risks and drive more efficient pricing, thereby creating better positive outcomes for energy consumers. In addition, any reduction in risks and costs will be seen as positive by MAP investors and encourage new meter asset providers to join the market thereby increasing competition in the provision of meters.

The CMAP would welcome the opportunity to meet with you in the near future to outline the work we are doing to address the issues we have highlighted and we look forward to your support in obtaining beneficial outcomes.

Yours sincerely

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Chair of CMAP