

## Response to Ofgem’s “Review of Metering Arrangements” decision and consultation on the transition to smart meters

23<sup>rd</sup> March 2012

### Overview

The Energy Retail Association (ERA) has been at the forefront of the development of smart metering arrangements for the domestic market since it set up its Supplier Requirements for Smart Metering project team back in September 2006.

The transition to smart meters is an important step in the move towards a low carbon economy, and the development of the truly smart energy grid of the future. Under DECC’s leadership, we expect the roll-out of smart meters to begin in earnest in 2014, and will see in excess of 2m smart meters installed over the next 2 years as suppliers seek to test and learn more about smart meters during the foundation stage of the roll-out programme.

Even though energy suppliers are not currently obliged to install smart meters (and are unlikely to be until sometime during Q3 of 2014), many stakeholders believe we have been in the period of transition to smart meters for a number of years already. With a mandate to roll-out smart meters looming on the horizon, the market for traditional meters has slowed significantly, with the exception of payment related meter exchanges, and those meters regarded as being in an unsafe state.

The competitive metering market arrangements have delivered some benefit to the market, with suppliers able to secure competitive metering arrangements away from incumbent service providers, and we are now in the situation where the industry has in many respects gone full circle, with some suppliers now bringing metering services back ‘in-house’ in preparation for the supplier-led smart meter roll-out.

The ERA welcomes the progress made by Ofgem in its review of metering arrangements, and support the proposed way forward, especially in terms of reviewing the Meter Provider of Last Resort (MPoLR) arrangements in the gas market. The majority of the ERA’s members support the proposal to appoint National Grid Gas as the MPoLR for a fixed period (though this is not a unanimous view). Those who support it agree that this should address both the need to ensure that there is a base for suppliers to assess competitive offerings against, and a need to ensure that anyone providing MPoLR services is able to benefit from reasonable economies of scale during the transition to smart metering.

When considering whether or not a Price Control Review of metering charges is appropriate, the majority of the ERA’s members welcome Ofgem’s recognition that a lighter form of regulatory intervention in the form of a charging consultation would achieve cost reflective charging, but also reduce the regulatory burden that a full Price Control Review could place on stakeholders.

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### **Commercial Interoperability of traditional meters**

*ERA Response:* The ERA supports Ofgem’s view that there are sufficient existing commercial incentives to avoid any unnecessary replacement of traditional meters. The market for traditional metering is fast diminishing due to the forthcoming mandated roll-out of smart meters, which basically removes the need for any further discussion on this issue.

None of the ERA’s members encounter significant difficulty in this area that would warrant any further work by Ofgem. As suppliers develop and trial ‘smart prepayment’ solutions, the market for traditional prepayment meters will obviously fall away which will result in a situation where traditional meters would only be installed in extreme circumstances.

### **Ability for gas suppliers to access MPoLR**

*ERA Response:* In the longer term, the ERA agrees that the functionality of smart meters (in that smart meters can operate in both credit and prepayment mode) will lessen the need for suppliers to seek separate arrangements for the provision of prepayment meters. Of course, this will be a transitional process and suppliers may continue to install traditional gas prepayment meters for debt management purposes, and where consumers specifically request a prepayment meter is installed, whilst the smart meter roll-out continues. This may be particularly relevant to smaller suppliers, and it is important that full consideration is given in this area.

In terms of what is an appropriate way forward for the transition to smart meters, we set out our views to the specific questions later in this response.

### **Small suppliers access to smart meters**

*ERA Response:* The ERA agrees with Ofgem that there is little evidence to support the suggestion that smaller suppliers are experiencing difficulties accessing smart or traditional metering services at this time. With some smaller suppliers already offering commercial propositions based on the installation/provision of smart meters, this suggests the competitive metering market is delivering benefits to all suppliers, large and small.

The ERA fully supports Ofgem continuing to monitor the situation and will be happy to contribute to any future discussions as and when appropriate.

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### **Regulatory arrangements to support transition out of traditional metering**

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

*ERA Response:* The ‘Backstop MPoLR with sunset’ approach and suggestion that this obligation should sit with National Grid Gas (NGG), via its metering business, National Grid Metering (NGM) has support from the majority of the ERA’s members. It will address the potential loss of economies of scale on GDN’s as suggested, whilst ensuring all suppliers are able to secure metering services for traditional meters when needed.

The sunset element will need to be carefully managed to minimise any risk of service provision for consumers, and with the sunset cut-over date firmly set at the date when suppliers will be obligated to install smart meters in respect of all new and replacement meters (assumed to be some time during Q3 2014), there is ample time for suppliers to put in place appropriate commercial arrangements for smart metering service provision.

There are mixed views of ERA members regarding support for the suggested approach for a ‘Backstop MPoLR with sunset’ along with a requirement for National Grid Metering (NGM) to conduct a charging consultation. The majority of the ERA’s members support this approach based on it being one that would see Ofgem overseeing the regulatory approach, rather than conducting what could be an intensive and time-consuming price control review of the existing tariff cap. It will however be essential that all affected parties put in the required effort to help provide the relevant evidence required enabling NGM to satisfy Ofgem that any proposed charging statement is appropriate.

The view of one of the ERA’s members is that the current arrangements have had an adverse effect on the competitive gas metering market, especially in relation to cross-subsidies for prepayment metering. It has also been over a decade since the last full price control review, and that member doubts whether adjustments to the current framework would provide an equitable outcome for all stakeholders.

Whilst recognising that the proposed MPoLR arrangements only cover traditional meters, and are not expected to remain in place post 2014, under either approach, there does need to be a focus on the maintenance element of the existing charging regime. It is this element which is likely to affect suppliers the most until the full traditional metering stock has been replaced with smart meters. It is the ERA’s view that in reality, there is very little maintenance activity associated with meters (with the exception of battery replacement for prepayment meters), and it is likely that suppliers will take the opportunity to simply replace a traditional meter with a smart meter whenever it is necessary to visit a customer’s premises.

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

*ERA Response:* The ERA considers Ofgem’s assessment of the related issues within the market as described are accurate and we have no further comment to make on these.

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

*ERA Response:* Emergency services are currently provided under commercially agreed contracts, and the ERA’s members do not believe there needs to be any change to this in the transition to smart metering and beyond. Ofgem does need to consider the views of all parties, particularly the views of smaller suppliers who may face very different issues compared to our members. Despite this, the ERA believes there are sufficient legal obligations (in relation to safety) and commercial incentives (to deliver excellent service to consumers) and on all parties without the need for any further licence obligations on either GDN’s or suppliers.

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

*ERA Response:* The ERA is aware that NGG’s Post Emergency Metering Services (PEMS) contract already suggests that they do not intend to replace a faulty smart meter when attending an emergency visit post roll-out. It is assumed that NGG will simply make the supply safe and then report the outcome to the relevant supplier to enable the supplier to arrange for a new replacement smart meter to be installed. This means that suppliers will either have to re-negotiate the terms of existing PEMS contracts with the relevant GDN’s (including NGG) where possible, or put alternative emergency metering services arrangements in place if they want a ‘one-visit’ solution going forwards.

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

*ERA Response:* There is majority support from the ERA’s members for the proposed option of a ‘Backstop MPoLR with sunset’. It would be wholly inappropriate to place obligations on all GDN’s to provide metering services when it is clearly obvious the competitive metering market is functioning adequately, and suppliers are able to secure competitive offerings from a wide range of service providers.

The added protection of price regulation on the ‘Backstop MPoLR with sunset’, coupled with a charging consultation would ensure appropriate cost reflectivity. However, as confirmed in our response to Question 1 above, there is not a consensus position on this and one of the ERA’s members has a different view.

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

*ERA Response:* As described in our response to Question 1, the majority of the ERA’s members do not believe it is either appropriate or necessary to carry out a price control review. When looking at what process is required, it is important to strike the right balance of regulatory oversight versus regulatory intervention, in order to deliver against ‘Better Regulation’ principles of applying proportionate regulation.

There is a majority view that a ‘Price control review of the tariff cap’ could add uncertainty into the market due to the length of time it would take Ofgem to carry out a full price control review. This uncertainty would make it difficult for suppliers to compare any future regulated service offering with other commercial market offerings until the price control review has been completed, and it could prevent suppliers from being able to meet expected licence obligations to only install smart meters from an agreed date in the future.

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

*ERA Response:* The majority of the ERA’s members believe that requiring NGG to carry out a charging consultation would be the most effective and appropriate revenue restriction mechanism. NGG would need to engage with all relevant stakeholders to gather evidence to support any changes they feel are appropriate, and in doing so would satisfy Ofgem that any changes to tariff structure of charges are appropriately cost-reflective. This would also ensure Ofgem meets its statutory duty to enable licence holders to finance their regulated activities, whilst also protecting consumers’ interests.

The differing view from one member is that now is an appropriate time to carry out a full price control review. With the consultation acknowledging that a charging consultation approach is less appropriate if costs are higher than the maximum regulated tariff, it should not be assumed that costs are lower, especially when considering the amount of time having passed since the current tariffs were set.

### **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?**

*ERA Response:* Not applicable to the ERA.

### **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?**

*ERA Response:* Not applicable to the ERA.