

March 23rd, 2012

Steve Rowe
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Ofgem
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Dear Steve,

Review of Metering Arrangements: Decision and consultation on transition to smart meters

Please find First Utility's response to the above consultation below.

Chapter 3: 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?

We agree with Ofgem that it is necessary to retain the Meter Provider of Last Resort (MPOLR) obligation in order to ensure that new entrants are able to obtain access to these services if required. If Ofgem is minded to place this obligation on one GDN to offer to others, the most obvious choice would seem to be National Grid Distribution. This is due to the fact that it is the largest of the GDNs and thus best able to bear this obligation as well as the fact that its parent group already has a regulated metering business in the form of National Grid Metering.

However we believe that, for the furtherance of competition and to create a level playing field between new entrants and incumbent suppliers, Ofgem should require the acquiring supplier (where that supplier is one of the large incumbent suppliers) to pay a smart rental for an already installed smart meter for the certified life of that meter where it has been installed by a supplier with a market share of less than one percent, even if that meter is then run in "dumb" mode. Alternately, the incoming supplier could assume liability for that meter in relation to the asset funder should it choose to remove the meter and replace it. The current uncertainty around revenue streams and the period of time for which such meters are likely to remain in situ in the case that the incoming supplier is unable to support their functionality has made it increasingly difficult for smaller suppliers to acquire third party funding for these. The prevailing situation can only benefit larger incumbents who are able to fund these themselves due to their greater size and the economies of scale which they enjoy to the disadvantage of both smaller players and the level of choice which consumers expect as part of a fully liberalised market.

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

We agree with Ofgem that access to meters (and particularly smart meters) is likely to remain a main topic for consideration from the viewpoint of competition and barriers to entry. Although Ofgem's view is that there is no hard evidence that smaller players have had difficulty in accessing smart meters, we would argue that the issue here is less one of access and more one of obtaining funding for the technology. Smart meters will always be made available on commercial terms to those who want them but smaller players often experience difficulty in raising the large sums of money

required to do this on a commercial scale. Our suggestion laid out in our answer to Question 1 above would, if implemented, remove this uncertainty and allow smaller players easier access to asset funding. This would then assist competition without requiring an obligation on larger suppliers in possession of in house metering arms to act as a smart meter provider of last resort. It would also be likely to assist competition in companies supplying these assets as the reduction of this potential risk combined with the scale of the planned smart meter rollout would make the UK a more attractive market in which to offer their products and innovate in new smart metering technology.

We would also request that Ofgem provide guidance on policy recertifications for existing meters. It seems illogical that meters which are recertified may potentially have only two or three years before they are likely to be replaced with a smart meter. It would seem more efficient for the recertification programme to be suspended until such a time (likely 2014) as a requirement comes into place to only install smart meters for new domestic properties or upon meter exchange. Such a change would result in reduced inconvenience to consumers and greater operational efficiencies for the market as a whole.

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

We agree with Ofgem that post emergency metering services should continue to be provided by each DNO whether by means of commercially agreed bilateral contracts with the NMM or another party or independently.

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

Perhaps this could be dealt with through DCC, which could have a number of statutory contracts with willing smart meter providers. Any market participant would automatically be a signatory to these contracts and would then reimburse DCC as required. Prices would be agreed between DCC and smart meter providers on a commercial basis and made public to the market. However, this arrangement would only operate for post emergency metering services and would not be a "Smart MPOLR".

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

Option C would seem to be the most appropriate option as we agree that MPOLR is required in order to ensure that new entrants and smaller players are able to access meters at a reasonable level of cost to ensure a level playing field. Again, we feel it appropriate that NGD be appointed as the Backstop MPOLR for the reasons discussed

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

Given that, under option C, only one DNO will carry the obligation of acting as MPOLR we feel that it would be appropriate for some examination of the existing metering price control tariff to take place. However, the industry unfortunately does not currently have the luxury of the extended period of time that a full price control review is likely to require. We agree that a charging consultation in relation to the cost effectiveness of the existing price control tariff would be the most time efficient approach. In the case where underlying costs are higher than the maximum regulated tariff, there should be an accelerated reopener around this cost. We would have thought that this would be relatively easy to expedite if required given that the majority of the necessary related information would have already been provided under the previous charging consultation. This should then ensure that the DNO responsible does not carry an undue financial burden in relation to that function.

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

As a full price control review of the tariff cap could take up to nine months, and given that time is currently of the essence, we agree that a consultation on a proposed charging statement would be the most effective option.

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.

Please do not hesitate to contact me should you have any questions or require any further information.

Best regards,

Chris

Chris Hill

Regulation Manager

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