

98 Aketon Road
Castleford
WF10 5DS

Steve Rowe
Smarter Markets
Ofgem
9 Millbank
London
SW1P 3GE

chris.allanson@northernpowergrid.com

22 March 2012

Dear Steve,

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

I am writing to you on behalf of Northern Powergrid Holdings Company and its wholly owned electricity distribution licensees Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc. Through our licensed companies we are responsible for the distribution of electricity throughout the Northeast, Yorkshire and parts of Northern Lincolnshire. We are also active in the meter asset provision (MAP) market owning both Legacy and non-Legacy electricity meters.

Northern Powergrid appreciates the effort being expended by Ofgem in seeking positive outcomes from its review of metering arrangements and we are grateful for the opportunity to respond to your consultation. We note with interest and some concern that Ofgem has concluded that, in broad terms, the current arrangements in electricity metering are fit for purpose. Whilst we would agree that many core market aspects appear to be working well, Northern Powergrid remains concerned that some key issues remain unaddressed. Four key issues which we strongly believe require further consideration are:

- 24/7 urgent metering services in electricity (UMetS);
- Commercial interoperability in general;
- The requirement for improved meter asset tracking in gas and electricity; and
- The requirement to ensure more efficient arrangements for MAP contracts on churn.

24/7 urgent metering services

We note that in paragraphs 3.4 and 3.27 the consultation highlights the issue of emergency metering services in gas (PEMS) and we are surprised that the issue of urgent metering services in electricity (UMetS) is not also explicitly addressed. Northern Powergrid believes that the responsibility for providing 24/7 response to meter faults in both gas and electricity should rest with suppliers, who might then opt to contract out the services. We believe this is very important because establishing consistency now would be a clear benefit for consumers, including vulnerable customers and would provide clarity of responsibilities into both the foundation stage and the main roll-out phase of smart.

NORTHERN POWERGRID HOLDINGS COMPANY

Registered Office: Lloyds Court, 78 Grey Street, Newcastle upon Tyne NE1 6AF. Registered in England and Wales: 3476201
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www.northernpowergrid.com

It should be noted that DNO rapid response staff are unlikely to have the skill sets to resolve smart meter faults or carry stocks of smart meters as replacements, therefore legacy arrangements that rely on the DNO will therefore become increasingly inappropriate. Clearly placing the responsibility to provide urgent metering response with suppliers, including 24/7 customer contact facilities, in both gas and electricity would place the responsibility for this aspect in the same place as all other key aspects of the smart meter roll-out.

Commercial interoperability

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 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 into the smart meter market. Current failings include those of meter asset data tracking and the lack of efficient arrangements for 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 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 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 changes via the code governance processes. We note that Ofgem welcomes industry initiatives to improve commercial interoperability further and that Ofgem recognises that the roll-out 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 to 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 within smart metering.

Ofgem should note that Northern Powergrid 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 proposed some 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 not appropriate 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 process issues. 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 exist as a commercial response to the premature removal of meters.

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 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 processes and contractual arrangements.

In appendix 1 we have included some confidential evidence in the form of recent events that demonstrate some existing market failings in the area of asset tracking and contract arrangements.

This confidential evidence is provided to Ofgem to support our assertions and we ask that Ofgem does not publish this information on its website.

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, which came into effect in June 2011 for MAM to MAP and MAM to MAM dataflows; 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 for 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 Supply Point Administration Agreement Ltd (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 meter asset ownership;
- 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 is not being received by MAPs;
- The reason for the removal of a meter is not transparent;
- Not all MAMs use the same communication methods causing data incompatibility issues;
- 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 fewer issues in tracking electricity meters, but changes are required to address the following:

- Notification of removal of assets is not 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 to track assets. 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.

During the foundation stage of the smart meter roll-out and moving into mass roll-out 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. It is particularly important to:

- Maximise the availability of conventional 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.

Effective asset tracking data will enable both these objectives to be met.

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 increased metering costs in two ways:

- Inefficiency costs from the need to manually intervene to obtain routine meter tracking data 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 which again translate into higher rentals.

While 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.

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 they need in respect of the physical assets they own. However, we would urge Ofgem to provide its support to MAPs should they face obstacles in achieving fair outcomes.

Churn contracts

Ofgem's findings note 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. Northern Powergrid remains convinced that some improvements in the efficiency of securing MAP contracts with suppliers are required, however if there is low appetite for standard contracts there are still important steps that should be taken to achieve the same desired outcomes, including that perfectly good meters should stay on the wall wherever possible.

Churn contracts, and specifically the absence of efficient arrangements to secure them, create risks for MAPs due to breaks in the flow of rental income. These risks can create higher costs for consumers, but perhaps worse they are very likely to create unnecessary smart meter changes that would undo Ofgem's efforts to secure commercial interoperability. 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, however the absence of efficient arrangements for securing churn contracts between suppliers and MAPs present three issues:

- Breaks in meter rental income through change of supplier affect financial returns and create the need for potentially unnecessary risk premiums that drive up overall meter rental charges (ultimately funded by consumers);
- 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. This would result in unnecessary meter changes that would be detrimental to the customer experience on change of supplier; and

- Unnecessary meter changes not only lead to inconvenience for consumers, but also to unnecessary site visits and the associated costs that will detract from the overall 'cost to serve' savings smart meters are intended to deliver.

Proposed solution

The Smart Energy Code should contain basic provisions to ensure that on change of supplier the incoming supplier pays the MAP its reasonable rental charges and that the incoming supplier also enters into contract discussions with the MAP promptly in order to agree terms as soon as possible. Such arrangements would not necessarily replace bilateral contracts between MAPs and suppliers, but these basic provisions would dramatically improve the efficiency of existing arrangements by reducing costs, removing risks and creating clarity.

Ofgem's consultation questions

Northern Powergrid would offer the following responses in relation you Ofgem's specific consultations:

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 taking 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 Northern Powergrid.

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

Not entirely, we are convinced that existing market failings create unnecessary costs and risks in conventional metering and if the issues we highlight remain unaddressed they will adversely affect arrangements in smart metering too.

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

The responsibility for emergency metering services in gas (PEMS) and urgent metering services in electricity (UMETS) should sit with suppliers and include obligations to provide 24/7 customer contact facilities. Obligations in respect of site visits to vulnerable customers should also apply on a 24/7 basis.

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

Given that smart meters will employ new technology and new functionality, including remote isolation, it would be inappropriate to expect GDNs and DNOs to attend no supply calls that were actually due to faulty meters or remote commands from the supplier. It is logical that the responsibility for emergency metering services in gas (PEMS) and urgent metering services in electricity (UMETS) in respect of smart meters should sit with suppliers. Obligations should include a requirement to provide 24/7 customer contact facilities and as a minimum provide site visits to vulnerable customers on a 24/7 basis.

In summary

We note that Ofgem's principal objective is to protect the interests of existing and future gas and electricity consumers, wherever appropriate by promoting effective competition. We believe that addressing the issues we have identified via the proposed solutions would reduce risks and costs and create intrinsically positive outcomes for 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.

Thank you for the opportunity to respond your consultation. We would be delighted to discuss any aspect of our response with you in more detail and we look forward to your support in obtaining beneficial outcomes.

Yours sincerely

Chris Allanson
Market Strategy Manager
Northern Powergrid

