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Dear Steve,

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

Thank you for providing SGN with the opportunity to comment on the above consultation document. We welcome the opportunity to comment on the proposed changes to GDN Meter Provider of Last Resort (MPOLR) obligations in the transition to smart meters. At this point in time we believe it is appropriate to continue with the obligation but we do not believe significant regulatory change is required.

As a result of the MPOLR obligations we took a conscious decision to develop a metering business. As knowledge and expertise has grown this has provided a platform for exploring other opportunities which provide economies of scale and help offset costs associated with delivering other regulated services. A good example is our emergency response service; we have trained some of our First Call Operatives (FCOs) to assist with meter work during periods of low demand for emergency services. This has helped us to manage costs efficiently.

We are confident we can continue to find innovative ways of providing an efficient MPOLR service over the next few years in the transition to smart meters, without any detrimental impact on economies of scale or cost to customers. We do not believe it is necessary to introduce changes to the regulatory framework at this point in time, either requiring one GDN to provide a 'Backstop MPOLR' service or requiring other GDNs to use this service. We are concerned the latter would have a detrimental impact on our business model and would introduce additional complexity and cost that is not part of our business plan for this price control period or RIIO-GD1. We believe significant effort and cost would also be incurred in developing and introducing arrangements to manage contracts, data flows, administer services etc. This would detract from other key activities at a critical point in the current price

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control review and development and implementation of the smart metering programme.

For the avoidance of doubt, we are not opposed to the concept of one GDN providing a 'Backstop MPOLR' service to other GDNs. However, in a competitive metering market we believe this should be provided on a commercial basis, rather than through additional regulation. We believe each GDN should be free to decide whether to use this service, particularly as the obligation and therefore regulatory risk will still rest with the host GDN on whose network the customer is connected. Indeed, we believe the commercial model already exists and is being utilised by other GDNs who have chosen not to develop their own metering business.

We believe there are other more critical issues that need to be addressed in relation to the MPOLR obligation. Firstly in a commercial supplier led smart meter world, we do not believe it is appropriate for GDNs to continue to be required to provide MPOLR services. As a result we believe a sunset clause should be introduced as part of RIIO-GD1, removing the obligation from a point at which the smart meter roll-out is expected to have reached a significant level (As details have still to be provided regarding supplier plans for roll-out it is not yet possible to suggest a date). Secondly, we believe it is necessary to establish arrangements for the recovery of costs associated with GDN stranded assets as existing meters are removed and smart meters are connected. Both issues must be addressed as part of the current price control review process for RIIO-GD1. We will set out our proposals in our April 2012 submission.

In summary, we believe it would be a backward step to introduce further regulation in a competitive metering market, as proposed in Option C, particularly when the industry appears to have developed similar arrangements on a commercial basis. It is also important to recognise this is likely to be a short duration transitional issue. We do not believe there is sufficient evidence to suggest economies of scale will be lost or GDNs will face significant additional risk or cost. From a customer perspective, we believe there are also sufficient safeguards as other commercial alternatives are available to suppliers and for those that opt for the MPOLR service, there is the added protection of the metering charges price cap. We believe the introduction of additional regulation at this stage would be disproportionate and introduce unnecessary additional complexity and cost to GDNs in developing, implementing and administering new arrangements, for an issue that is low risk and of short duration. This would also detract from other activities at a crucial time in the price control and smart meter programme. We support Option A: the status quo.

I hope you find our comments helpful. If you have any further questions or wish to discuss any aspect in more detail, please contact me at the address shown above.

Yours sincerely,

Beverley Grubb  
Regulation Manager