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Wales & West Utilities Response to Review of Metering Arrangements Decision and Consultation on Transition to Smart Meters

Dear Steve,

Wales & West Utilities (WWU) response to the open letter is set out below.

WWU is a licensed Gas Distribution Network (GDN) providing Gas Transportation services for all major shippers in the UK. We cover $\frac{1}{6}$ th of the UK land mass and deliver to over 2.4 million supply points. WWU is the only company that focuses solely on Gas Distribution in Great Britain.

Our primary concern is that the last resort obligation has been and continues to be onerous for WWU for the following reasons:

- The high proportion of pre-payment meters (approximately 40%) in our metering stock compared to the national average of approximately 10%.
- The stranding risk inherent in the smart meter rollout which impacts more on Wales & West Utilities more than national Grid owing to the younger average life of our meters which have all been installed since May 2005.

Before responding to the questions we challenge the statement in paragraph 2.18 "... and under the existing MPOLR obligation GDNs are not required to provide a smart meter." In our opinion this is not correct. Standard Special Licence Condition A10 (1) requires transporters to provide domestic meters that are reasonably available on receipt of a request from a supplier. This obligation is not restricted to those meters subject to the price caps in Special Condition E19, even though when drafted the only domestic meters available were credit and prepayment meters.

In our view Condition A10 requires transporters to provide smart meters when they become reasonably available. The price caps relate to credit and prepayment meters and not smart meters, therefore the rental for a smart meter would not be prices capped. The rental for this meter would then be set by the transporter and charged for in conformity with the metering charging statement issued under Standard Special Licence Condition A43 particularly noting paragraph 4 which makes explicit reference to Standard Special Condition A10. We do not

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*calls will be recorded and may be monitored
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believe that the intent of Ofgem is for transporters to have an obligation to provide smart meters; this should be explicitly stated in the revised document.

Furthermore, changes are also required to Standard Special Condition A46 "Non-discrimination in the provision of metering activities.". This condition requires transporters to offer metering services to all suppliers on the same terms at the same price. A universal obligation to provide metering services is inappropriate when suppliers are responsible for smart meter rollout in a competitive market. A transporter may determine that it has capacity to provide metering services up to a certain volume in part of its geography and may wish to offer services to suppliers whose requirements matched its capability; however this is not possible unless SSCA46 is changed because the transporter could be required to offer all suppliers the same terms and it is quite likely that the transporter would not have the resources to do this.

Therefore, we suggest that:

- Standard Special Condition A10 (1) needs to be amended to restrict the obligation to provision of domestic credit and pre-payment meters only and explicitly exclude smart meters
- Standard Special Condition A46 needs to be removed
- Relying on a supplier licence condition to provide new and replacement smart meters is not sufficient because suppliers could fulfil this obligation by relying on the transporter's last resort obligation

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 start by commenting on paragraphs 3.7 to 3.12 in Ofgem's consultation document.

We agree with paragraph 3.7, the rollout of smart meters will change the nature of the role undertaken by GDNs with respect to traditional meters.

Paragraph 3.8 says that the costs of metering services relating to traditional meters will change as the numbers of these meters diminish. We agree that this is correct, however we believe that there also needs to be an acknowledgement that the life of meters installed a number of years ago will be shorter than expected as they are likely to be replaced by smart meters before the end of their economic lives. Paragraph 3.9 recognises that this is the case for new and replacement meters; however the issue extends much wider than this. WWU provided a view on the level of tariff caps required taking into account the stranding caused by smart meter rollout in Part C17 of our RIIO GD1 business plan. For ease of reference this is attached as a separate document.

We welcome the proposals to reform the Meter Provider of Last Resort Obligation and in particular the option that will remove the obligation from WWU.

We are concerned that the proposals do not address behaviour by some suppliers in respect of decisions of where to source meters. We are aware that suppliers are continuing to request pre-payment meters in parts of our geography while at the same time installing their own prepayment meters in some circumstances in other areas of our geography. We believe that suppliers are making these decisions solely on the basis of the efficient cost to their business, clearly if the price capped pre-payment meter rental is under the market rate then suppliers will make use of the last resort service whereas if they had to pay the market rate they would not.

We suggest that Ofgem could easily identify this behaviour by means of information request to suppliers. We do not think that it is appropriate to ignore the problem because it will disappear when smart meters are rolled out because:

- It is not clear when the last resort obligation will be removed from all transporters.
- The start of mandated rollout has been put back from the start of 2014 to the end of 2014.

We suggest that the argument that the current arrangements protect customers is not valid because currently suppliers have no obligation to reflect the tariff caps in their metering charges to customers. We suggest that customers would be better served if suppliers had the obligation to cap metering charges rather than transporters.

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

One issue that has not been discussed is what happens to traditional meters that have not been replaced as part of the smart meter rollout programme by 2019. The current proposal is that suppliers take “reasonable steps” to rollout smart meters. In our response to the DECC consultation Smart Metering Implementation Programme issued in August 2011 we raised some questions about this condition in particular that if replacing some meters will require more than reasonable steps then there is a high probability that there will be a number of non smart meters still operational after 2019. Even if this is only 5% of the domestic metering stock this equates to about 1 million meters in Great Britain. It seems likely that these will be disproportionately in difficult to access properties and premises in the more remote areas. We suggest that Ofgem needs to consider how best to address this issue with the interested Meter Asset Providers.

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

WWU believes that PEMS provides a valuable service to suppliers and believes it should continue to be provided by the GDNs under the current arrangements both during smart meter rollout and afterwards in a smart world. The current arrangements are that transporters provide common services to suppliers on commercial terms and suppliers are free to choose to take the services on these terms if they wish. Most, but not all, suppliers who supply to customers with U6 meters do choose to take the service. To this end we have sought to engage with suppliers about this issue as well as other enduring issues such as meter exchanges or relocations required as part of the transporters’ main replacement programmes and the more immediate rollout related issues; however to date we have only had constructive engagement from one supplier.

With specific relation to emergency provision for gas meters, we already encounter a few advanced domestic meters during emergency work. We have written to suppliers informing them that if we come across one of these meters as part of an emergency call, where there is a report of no gas, then, if we cannot restore the flow of gas, we will replace the meter with a credit meter.

Key issues that need resolution in respect of PEMS include:

- What should be done if the meter is smart but the transporter is only carrying non smart meters
- What should be done if the meter is not smart but the transporter is only carrying smart meters.
- Will Meter Asset Providers that only operate non smart meters be willing to adopt smart meters installed under PEMS where this replaces a non smart meter or will the supplier need to take ownership.
- If the smart meter is in prepayment mode how does the transporter interact with the meter as we understand that the current design is for this to be done with supplier specific hand held terminals

There are more general issues that relate to how we will interact with smart meters as part of our day to day operations, these are very important and need addressing but they are outside the scope of this consultation.

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

Our view is that PEMS will still be required post smart meter rollout and that, subject to issues with hand held terminals being resolved, the current arrangements could continue in a smart meter world. There may be scope for increasing the scope of services offered, for example by providing services to restore smart meter connectivity if HAN or WAN communications fail; however this will need to be the subject of commercial agreement between transporters and suppliers.

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

Wales & West Utilities supports option C; however we do not believe that we are the appropriate GDN to take on the obligation as we do not have a MAM function and we do not own meters across Great Britain and therefore do not have the field force coverage to provide the service. We believe that Option C is appropriate for the following reasons:

- WWU, in common with the other sold GDNs, has never had large meter stocks and has not been able despite a number of attempts to procure a commercially viable MAM and has had to rely on National Grid Metering providing a service. If this was withdrawn we do not believe we could obtain another service provider and would have to provide an in house MAM at significant cost which would not be recoverable with the current price caps.
- The rollout of smart meters will, as stated by Ofgem, make this situation more difficult as our meter stock declines

We believe that transporters should have an opportunity to opt in or out of this option as a one off decision.

The mechanism for achieving Option C is not clear, we would prefer to have the MPOLR obligation entirely removed from our licence. If it remains we have the right to request another GDN to provide the service, then we still have the risk of being in breach of our licence if that other GDN fails to provide the service in some way. This means that we would still have to

have agreements with that other GDN and monitor performance, with its associated compliance costs. We believe that this solution would not be efficient and that a better solution would be to remove the obligation from our licence and have the GDN providing the service to have a GB wide obligation in their licence. We accept that the drafting of this condition for that GDN will be more complex, however we believe that the enduring benefits outweigh the slightly more complex drafting required.

Question 6: Under option C, is it appropriate to carry out a price control review [of the metering price control]

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

If option C with full transfer is adopted we believe that this is a matter for the Backstop MPOLR to comment on. If full transfer does not take place then WWU believes that both credit and prepayment tariff caps should be reviewed. We have provided proposed tariff caps in our RIIO business plan submitted to Ofgem in November 2011.

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?

WWU would prefer full transfer. Our understanding is that this means:

- The Backstop MPOLR would be responsible for all new requests
- The Backstop MPOLR would take ownership of all the existing last resort meters and would therefore be responsible for the maintenance of these meters.

We have never wished to own a small population of price capped domestic meters and believe that it is more efficient for our small stock of domestic meters to be owned and managed as part of a larger portfolio. Partial transfer whereby we still owned the existing last resort meters would still mean we owned a small number of meters and we would incur the costs of ensuring that the subcontractor fulfilled its obligations. We would also have the risk of the subcontractor terminating the contract which would leave us without a service provider.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S Edwards'.

Steve Edwards
Head of Commercial and Regulation
Wales & West Utilities