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Re/ofgem25_4

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Dear David

COMPETITION IN METERING SERVICES – INDUSTRY GUIDANCE

Thank you for the opportunity to comment on the above document. As you are aware, ScottishPower Energy Retail Ltd (SPERL) has been pressing for commercial guidance on this issue for some time and we are grateful that this initial document has now been issued.

We note that Ofgem intend this guidance to be a "living document" and we fully support this approach. Due to the fast pace of change in the industry, the realities SPERL is experiencing in preparation for electricity metering competition and in operating in an unbundled gas market do not yet appear to be reflected in this guidance. We would therefore welcome further guidance that covers the issues we are currently encountering. As a result, we have drafted this response to highlight our ongoing issues as well as to comment on individual items within the guidance.

It should be noted that we are concerned with the coverage of the guidance. We agree with Ofgem's comments in the summary that "participants in the gas and electricity industries have requested… …clarification" and are therefore concerned that the document applies only to electricity metering competition.

It would be our intention to apply the same principles to gas metering, however we would welcome Ofgem's agreement that this is a safe position for SPERL to assume. If this is not a safe assumption then we would seek, as a matter of urgency, guidance from Ofgem over the commercial arrangements to apply in the gas market – especially as BGT has already commenced unbundling of metering services in areas where we supply domestic customers.

In our REMA appeal presentation to Ofgem in November 2002 we stated that suppliers interests were being unfavourable prejudiced as it was not possible to secure competitive metering prices from alternative providers that bettered those currently on offer from the local DNO. It was therefore our suggestion that the metering charges levied by the local

DNOs and Transco should be used as a price ceiling for competitive offerings. To date this suggestion has not been taken on board and suppliers therefore face the probability that, as a result of meter unbundling, their costs will rise significantly resulting in either squeezed margins and supplier failure, increased costs to customers or entrenchment in the market.

A supplier's inability to secure competitive prices raises two further main concerns:

- Firstly, as Ofgem note, suppliers should be able to secure discounted prices due to economies of scale. Whilst we are unaware of the charges BGT has negotiated, we can only assume they represent a saving against the local DNO. However as BGT are not dominant in any single ex PES area then, by virtue of the contract structure put in place, they should not be able to secure greater discounts than the dominant supplier in each area. This is clearly not the case. We are therefore concerned that BGT are using their dominance in the energy market to leverage benefits in related markets to the detriment of other suppliers and hence competition.

- Secondly, we calculate that as BGT unbundle metering work DUoS charges will rise, as will the metering charges of the ex PES meter operators to compensate for the under-recovery of DUoS against the RAB and the unavoidable metering costs that the metering business will continue to incur. In addition, if all suppliers unbundle from the ex PES meter operator then DUoS will rise further still. This, combined with suppliers' inability to secure competitive metering prices that are lower than those charged by the ex PES meter operators, results in higher overall charges for all.

We note from the guidance document that Ofgem consider that all suppliers should promote competition by providing transparent pricing schedules for all meter points. To date we have had no evidence that either BGT or their agents intend to publish such schedules.

We further note that Ofgem intends to oversee disputes between suppliers and customers, where there is a question arising over whether the metering maintenance has been undertaken to standard. We believe this could be a significant burden for Ofgem - perhaps even involving site visits. As such we would anticipate this to potentially be an expensive service and would therefore request guidance on who would be required to bear this cost burden, especially if the customer is found to be at fault.

Finally we remain concerned over the provision of Urgent Metering Services. It is possible that customers may be confused over who to contact in an emergency which could have very serious consequences. In addition, suppliers may be subjected to high call out charges for visits to customer premises that should have been filtered out at the emergency call centers – i.e. alleged PPM faults where the true cause is that the emergency credit has been used by "wont pays".

As stated above, whilst we welcome this initial guidance we do not believe it goes far enough and would urge Ofgem to issue further guidance before go-live at the end of May that addresses the concerns outlined above.

SPERL remains convinced that metering competition will result in higher charges and reduced supply competition with the potential to cause supplier failure, raise barriers to entry and stall domestic competition completely. Unfortunately, the guidance provided thus far does not provide the comfort we require to convince us that our concerns are unfounded.

I trust you will find the above comments useful. If you wish to discuss any of these points further please do not hesitate to contact me.

Yours sincerely

Richard Escott
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ScottishPower Energy Retail Ltd