

Maxine Frerk,
Director, Coordination and Metering,
Office of Gas and Electricity Markets,
9 Millbank,
London SW1P 3GE

20 August 2003

Dear Maxine

Electricity distribution price control review – metering issues. Initial consultation

I welcome the publication of this Consultation Document as a useful and thoughtful addition to the discussions on the direction in which to take metering strategy. In particular your concerns to ensure that price controls do not impose barriers to the introduction of advanced metering are strongly supported. Some of the benefits of advanced metering are mentioned, such as accurate readings, better information for customers, remotely changeable functionality, ability to measure embedded generation and improved, more economic prepayment technology. However, in spite of these tangible customer benefits, no specific proposals are advanced to promote this advanced metering technology.

Whilst I appreciate that Ofgem is constrained in its actions and cannot promote any particular technology, let alone any specific manufacturer, it could provide considerable impetus by encouraging suppliers to seriously consider trialling advanced metering systems. One possibility would be for Ofgem to set up a seminar for suppliers and advanced metering manufacturers to show the benefits of advanced metering and for suppliers to state any barriers they see to its adoption. This would be very timely in the light of the present billing difficulties being experienced by suppliers due to poor quality and untimely data, which would be addressed by advanced metering technologies.

My detailed comments on the document, using your section numbering, are as follows:-

5. Valuation of metering assets

I am concerned about the proposal to assess the metering RAV on a depreciated replacement cost basis. This is because there is a considerable element of discretion in assessing this value and DNOs would have an incentive to maximise the proportion in the non-competitive distribution business and minimise the portion in the competitive metering business. This would be to the disadvantage of competing meter businesses and new metering technologies entering the market. It would be better to use the depreciated historic cost of metering assets, which is transparently auditable. The lower rate of return allowed on the RAV, compared to market rates for capital payable by the DNO's competitors should still enable DNOs to compete very effectively.

As a quid pro quo to DNOs, Ofgem should address the issue of stranded assets by saying that existing metering left stranded through its replacement by advanced metering technology can be added to the RAV. Clearly some safeguards would need to be established to ensure that this was not abused, but it would address one of the barriers to new technology.

6 Structure of price control

it seems sensible to limit price control to those categories of customers who require it and these are domestic and “near domestic”, that is small single businesses. On the basis of simplicity it would therefore appear that the most straightforward method of allocation would be to restrict price control to single phase meters. To allocate on the basis of customer class would complicate matters, for instance how would combined premises be treated and what would happen when a premises changed from one classification to another?

Turning to the activity, which should be controlled, with the separation of MAP and MOp activities and competition in the latter, only the former need be regulated.

Basic technology

As you state, the adoption of price cap regulation will require the removal of advanced metering from the RAV, due to its likely higher capital cost. However, it would be concerning if this resulted in DNOs charging a higher rate of return on this metering, than for basic metering. To avoid this, advanced metering should be regulated by rate of return regulation. As advanced metering will be defined by Ofgem, presumably, as that which gives benefits to customers and suppliers and as the rate of return should not be higher than for basic metering, DNOs will not have unreasonable incentives to invest unnecessarily.

I hope that these comments prove to be helpful, should you need any further elaboration please contact me

Yours sincerely

John Stanton

Commercial Manager