

## **Summary of Responses.**

This document sets out a summary of responses to the July Consultation<sup>1</sup> document.

### **Respondents to the July Consultation document.**

#### **DNO's**

1. Aquila Networks Plc
2. EDF Energy Plc
3. EME Distribution
4. Scottish and Southern Energy Plc
5. SP Transmission & Distribution
6. United Utilities Plc
7. Western Power Distribution
8. YEDL & NEDL (CE Electric UK Funding Company)

#### **Others**

1. British Gas Trading
2. Horstmann Controls Ltd
3. Innogy
4. Ralph Turvey
5. Scottish Power Energy Retail
6. Secure Electrans

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<sup>1</sup>“Electricity distribution price control review – metering issues - Initial consultation”, Ofgem, July 2003

## **Metering**

### ***Valuation of Metering Assets***

#### **Ofgem proposed approach**

There was widespread support for Ofgem's proposed approach using depreciated replacement cost. However, several Distribution Network Operators (DNOs) stated that their preferred approach remained that put forward by DNOs and outlined in the consultation document which was to remove price controls from all activities other than the provision of meters installed prior to April 2005 and to retain those meters in an integrated price control with distribution.

One DNO considered that the consultation paper did not reflect the complexity of valuing existing assets due to the wide range of meter types, asset lives and ages.

Another DNO did not support the use of depreciated replacement cost as it did not address the issue of premature replacement of viable metering assets going forward. The respondent proposed a zero value for metering assets.

One respondent was not in favour of Ofgem's proposed approach as they considered the use of depreciated historic cost a more appropriate method as it is transparent and auditable.

One respondent set out what they considered a superior alternative to using a depreciated replacement cost approach to valuation. The alternative was based on calculating the difference between the net present values of the costs of replacing meters assets now and replacing meter assets at the end of their useful lives (in both cases taking into account the values of subsequent replacements of metering assets).

#### **Valuation approach**

One respondent stated that if depreciated replacement cost was the basis for valuation then certification lives adjusted for early replacement should be used.

Another respondent asserted that when calculating depreciated replacement value the economic value of the asset should be used rather than the accounting value.

## Scope

### Proposed approach

Ofgem indicated that it was considering controlling Meter Asset Provision, Meter Operation or both activities. Other options considered were applying price controls only to Non Half Hourly or only to domestic metering. Ofgem considered two methods of defining "domestic" and "I&C" meters: either by meter capacity, or by utilising information that DNOs have registered on whether customers are domestic or non domestic.

### Non half hourly or domestic.

No respondent argued that half hourly metering should be price controlled.

One respondent suggested that the price control should be limited to domestic metering. However, several other respondents felt that the price control should cover all non half hourly metering.

One respondent considered that the definition of domestic metering should be based on meter type. Another respondent stated that "customer type groupings can be achieved by a combination of profile class and meter type".

### Meter asset provision, Meter operation or both

Six respondents claimed that a price control on Meter Operation (MOp) was not necessary. Most of the DNOs believed that the meter asset provision (MAP) price control should be limited only to those existing meter assets installed before 1 April 2005.

Four respondents thought that both MAP and MOp should be price controlled. One respondent argued that such an approach would ensure there was no cross subsidy between MOp and MAP.

### "Basic" Metering

Ofgem proposed only price controlling "basic" metering services so as not to stifle the roll out of new metering technologies.

Two respondents expressed support for the suggestion that only "basic" metering should be covered. Another respondent considered that should the price control only apply to "basic" metering, careful consideration would need to be given to defining "basic" metering.

One respondent felt that due to the difficulty of defining "basic" meters, and the availability of obtaining metering services from companies other than the host DNO, advanced metering should not be specifically excluded from the price control.

## **Form**

Ofgem identified three basic forms that future price regulation could take and one alternative, *ex post* regulation. Therefore the options outlined in the paper were Revenue Caps, Price Caps, Cost pass-through and *ex post* regulation. Ofgem ruled out the option of a cost pass-through approach.

Several respondents did not believe that a separate metering price control was necessary.

None of the respondents showed support for the cost pass-through approach.

The majority of respondents who were in favour of a separate metering price control preferred the Price Cap approach over the other option of the Revenue approach. Two respondents supported *ex-post* regulation approach rather than that of a metering price control. A number of DNOs wanted a separate price control to be designed in such a way as to recognise unavoidable costs. One respondent was in favour of a revenue cap approach to price control.

One respondent expressed that any form of metering price control should reflect the meter life, unavoidable costs, the competitive market and the ongoing costs of licence obligations.

## **Duration**

The paper asked how long the proposed metering price control should run and whether a competition review or criteria checklist be established to facilitate its removal.

The majority of respondents would like the proposed metering price control to run for the same period as the distribution price control. One respondent thought two years was enough for the metering price control. Most respondents supported a review of the competitive market after the fixed five year period. However, several respondents wanted to have a checklist of criteria and have controls lifted when those criteria are met.

## **Other**

### **Metering technology**

One respondent had a proposal to encourage the development of “metering innovation zones”. These zones would be used as trial zones to encourage DNOs to demonstrate metering technology.