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Dear David

The Provision of Metering Services by New Electricity Distribution Network Operators

CE Electric UK Funding Company (CE) is the parent company of Northern Electric Distribution Ltd (NEDL) and Yorkshire Electricity Distribution plc (YEDL). This letter represents the response of CE, NEDL and YEDL to Ofgem's December 2003 published consultation.

Overall, we support Ofgem's objective to ensure that customers and suppliers are able to obtain metering services at reasonable rates and on a non-discriminatory basis. To achieve this, we acknowledge that for the immediate future it is appropriate to continue to have a licence obligation to offer metering services for distribution networks that we own or operate within our distribution services area.

We are also of the view that "new entrant" licensed distribution system operators (LDSOs), or LDSOs operating outside their distribution services area, should also have a last resort obligation to provide these services. To this end we believe it is reasonable to move licence condition 36 – 36C obligations to Part B of the Licence. Therefore, we believe that an industry solution based on Ofgem's proposed Option 2 offers the optimum solution. Our reasons for this are as follows:

- it provides additional stimulus for the development of competition for metering services;
- it allows for the situation where ex-PES distributors do not have their own metering business; and
- it is consistent with industry arrangements whereby meter operator (MOp) and distributor activities are identified separately.

Stimulus to Competition in Metering Services

Where the MOp or meter asset provision (MAP) services are provided by a separate entity from the LDSO, any operational synergies that may have previously existed from having a common provider of both services have already been removed. Consequently, the premise that obligations should only lie with those who have the economies of scale and the logistics and facilities to provide these services has already been negated and could, in any event, serve to hinder the development of competition in metering.

We believe that removing the obligation on existing LDSOs, to provide metering services to new LDSOs, would provide a stimulus to the development of competition in metering. As new entrant distributors obtain licences and enter the market, growth will be incremental, starting from a small base. Therefore, we believe:

- it would give providers of metering services time to adapt and develop the services on offer, as the 'open' market would be small initially - growing incrementally as new licensed distributors enter the market and / or new connections are built; and
- establishing competition in this way would allow a competitive benchmark for the provision of such services to be developed going forward.

In the short term, we accept that an LDSO which has obligations under Section C and is operating within its distribution services area should offer MAP. However, since ex-PES LDSOs' metering assets are set up to support tariff structures based on their own use of system tariffs, the development of innovative tariff structures by new LDSOs may be restricted.

We already have experience of another LDSO owning and operating a distribution system within NEDL's distribution services area. Suppliers to metering points on this network have procured metering services directly from appropriate providers of such services.

Some LDSOs, such as ourselves, may not have a metering business and may therefore meet their licence obligations through contracting for provision of the services from a non-affiliated third party provider. Thus, given that this is an existing arrangement, it would be reasonable to expect that a new distributor could do the same.

Option 2 may also lead to the development of competition in ancillary metering services such as UMETS and revenue protection.

Ex-PES distributors have no obligations to offer UMETS or revenue protection services. Industry debate on the provision of UMETS is ongoing with an expectation that ex-PES LDSOs will offer UMETS for metering points connected to their distribution system. However, it does not follow that such services will be offered in respect of networks that the ex-PES LDSO neither owns nor operates. Therefore, suppliers will need to enter into separate arrangements for the provision of UMETS on the networks of non-ex PES LDSOs.

We understand that Ofgem are due to consult shortly on revenue protection services. Under current arrangements, although distributors may provide or procure revenue protection services for suppliers, the licence obligation to provide such services lies with suppliers. Therefore, as with the provision of UMETS, suppliers may need to make alternative arrangements for the provision of revenue protection services on networks owned by a new entrant LDSO.

Trading arrangements

In providing metering services in respect of another LDSO's network, the ex-PES LDSO will be acting in the role of an independent MOp. Therefore, the ex-PES LDSO will only hold information relevant to the role of MOp and only in respect of metering points where the supplier appoints it as MOp.

Under changes implemented through the Balancing and Settlement Code (BSC) modification proposal P62, the supplier will be able to identify the relevant distributor and the relevant grid supply point (GSP) group in respect of a metering point. This should counteract any perceived complexity arising from a supplier's inability to assume that the "in area" DNO would be the last resort provider of metering services. As stated above, we believe the development of new entrant distribution networks will be incremental and from a small base and therefore we do not view the potential layer of complexity identified in Ofgem's consultation (paragraph 4.12) as being significant.

We recognise that Ofgem have raised concerns over the level of charges that may be levied for the provision of metering services and, in particular, in respect of prepayment meters. At present, LDSOs with licence condition 36 obligations have a price cap on the charges that they make for the provision of prepayment metering services. This concern is substantially the same as concerns raised about the level of use of system charges that a new licensed distributor should apply in respect of his network. Ofgem have addressed this by requesting that the ex-PES LDSO's DUoS charges for the distribution services area within which the new network is established be used as a benchmark. Similar arrangements could apply in respect of metering services.

We believe that Ofgem's Option 3 should be the long-term goal, recognising that it is probably premature to remove the regulatory obligation on ex-PES LDSOs to provide metering services in respect of their network in their distribution services areas.

Finally, one of the current issues we have is that, in separating out the individual strands of responsibilities and obligations between the distributor, the meter operator and the supplier, there is some confusion as to where the responsibilities of different parties start and end. In carrying out this review it would appear to be entirely appropriate for Ofgem to facilitate a single industry understanding of these across all party groups in the industry.

Yours sincerely

Tony Sharp

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