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Dear David

The Provision of Metering Services by New Electricity Distribution Network Operators – Initial Thoughts

We welcome the opportunity to comment on future arrangements for metering on licensed electricity distribution networks.

In essence, we understand that the issue being consulted upon is whether it continues to be appropriate for an “in area” DNO to be required to offer metering services to independently owned distribution networks located/embedded within their distribution services area. Given that it would be, at this stage, inappropriate to remove the metering obligation altogether, the alternative would be to place an obligation on **all** DNOs to provide, upon request, metering services to supply points connected to their own networks.

We believe that the existing obligation should be retained in the short term. To require “in area” DNOs to extend their metering services to networks embedded within the geographical boundaries of their “in area” network is relatively straight forward and the least cost option. The alternative option that would require all DNOs to provide metering services on their networks would pose considerable difficulties and cost for new DNOs that would undermine their economic viability, be detrimental to supply competition on these networks and would, in our view, almost certainly stifle the future emergence of new DNOs/embedded networks.

In reaching our conclusion, we have considered the practicalities of applying a metering obligation to all DNOs. In order to fulfil the obligation to provide a metering service of last resort, a new/embedded DNO could, in theory, either seek to contract with a meter service provider for the provision of these services or they could establish their own metering business to provide the services themselves. However, in practice, neither of these options are, in fact, viable alternatives.

A typical embedded electricity network has only a few hundred customers and alone, therefore, it will not provide the critical mass necessary to support the establishment of a new metering business. Nor will a network of that size support the expansion of an existing metering business into the embedded network area. In addition, SSE has identified that there is very little interest from new (competitive) and existing Metering Agents to expand their business activities to include embedded electricity networks unless the embedded networks are located in areas where they have (or are expected to have) a significant presence. Even for existing “in area” DNO’s that have their own metering business it is not possible to provide metering services for embedded networks outwith those areas at a level which will be acceptable to customers/suppliers, and which meet the required standards of service, without very significant increases in charges.

We conclude therefore that, at present, an embedded DNO is unlikely to be able to contract for the provision of a metering service of last resort from anyone other than the relevant “in area” DNO. Nor will it have the critical mass to support the creation of a new metering business itself. As a consequence, the only practical option is for the “in area” DNO to continue to have the obligation to be the service provider of last resort. Indeed, we firmly believe that failure in this respect would stifle the development of embedded distribution networks and inhibit the emergence of new DNOs.

We do recognise however, that it should not be unnecessarily onerous for the “in area” DNO to provide the service of last resort to embedded networks. We therefore believe that they should only be “obliged” to do so where their current metering equipment is capable of supporting the embedded network’s tariff structure. In situations where the embedded DNO creates tariff structures that are not compatible with the “in area” DNO’s arrangements, then the embedded network owner should become responsible for the provision of metering services of last resort. In addition, if the embedded DNO, the customer or the supplier decides to adopt different technologies to those offered by the “in area” DNO to the generality of its customers, then the “in area” DNO should not be obliged to support such technologies. That is, the “in area” DNO should only be obliged to provide a basic product at standard/published prices. We believe this should provide some comfort to those “in area” DNOs who may be reluctant to provide these services.

Turning now to address some of the concerns that have been set out in the Ofgem consultation document.

We do not believe that the extent of the development of new DNOs and embedded networks is such that it will have a significant impact on the current price control provisions for “in area” DNOs. Furthermore we do not understand why some “in area” DNOs are concerned that they will not have access to the MPAN for each supply point created by the new licensed DNO. Since, following the implementation of P62, this information will be passed to the relevant parties during the registration/agent appointment process.

We agree with Ofgem that a move to require new DNOs to provide metering services will have a detrimental impact on the provision of prepayment meters similar to those experienced on iGT networks in gas. At present, prepayment meters are supported by PPMIP services provided by suppliers associated with specific supply service areas.

However, only those meters that are provided by the associated “in area” DNO are compatible with those PPMIPs. Therefore, if all DNOs were to have an obligation to provide metering services, a new/embedded DNO would have to procure prepayment meters and support equipment from the local “in area” DNO, (who, incidentally, would have no obligation to provide them). Clearly, this would have a significant financial implication for new DNOs especially if they owned and operated networks connected to a number of different “in area” DNOs since they would be required to provide and support multiple PPM types and infrastructures. Therefore, the practicalities and cost of all DNOs providing prepayment meters would, in our view be prohibitive. By contrast, it should be relatively straightforward for an “in area” DNO to expand its existing prepayment services to include embedded networks in their area.

Finally, Ofgem has proposed that the obligation to continue to offer to enter into an agreement for the provision of metering services may only be required for a limited period of time until Ofgem is satisfied that competition for these services is effective, and at that time, the obligation could be removed altogether. It would therefore seem inappropriate to change the existing arrangements to force new DNOs to bear the considerable expense of establishing a new metering business and to bear the associated burden of becoming accredited by the Settlements authorities in order to fulfill, what would essentially be, an “interim” obligation. An extension of the obligation to include new DNOs would also seem to be at odds with Ofgem’s principle of withdrawing from regulating the energy industry.

To summarise therefore, we support the retention of the existing obligation on “in area” DNOs to provide metering services to embedded/new DNOs until metering competition is sufficiently well developed to allow the obligation to be removed from the distribution licence altogether. However, in order to make it more acceptable and less of a “perceived” issue in respect of the DNO’s price control, we believe that “in area” DNOs should only be obliged to provide these services where their existing metering equipment is compatible with the embedded network’s tariff structures. More generally, however, wherever the obligation lies, we do not believe that a DNO should be required to provide a metering service (including PPMs) that is anything more than a basic service that is provided at a standard price.

If you would like to discuss any of the points in more detail, please give me a call.

Yours sincerely

Rob McDonald
Director of Regulation