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Your reference
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Date
22 October 2004

Dear Martin

Electricity Distribution Price Control Review – Metering Price Controls and Allowances

Please find attached a paper detailing our thoughts on the Ofgem proposals for the Metering element of the Electricity Distribution Price Control Review published in September 2004.

We have forwarded copies by fax and email to yourself with a copy to Mark Allen.

Yours sincerely,

Duncan Southgate
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Electricity Distribution Price Control Review – Comments by Capital Meters Limited on Ofgem September Proposals for Meter Price Control

Allocation of costs between MAP and MOp

Capital Meters ("CML") in its previous response to the initial proposals indicated the additional risks a new entrant faced. It should also be noted that the DNO MAP will also face additional costs and risks in the future as Electricity Suppliers unbundle MAP and MOp services. Many of these costs have been articulated by Ofgem and respondents to the initial paper. We would draw your attention to the following which have not been specifically highlighted:-

- Rising allocation of IS support costs to MAP as MOp services are reduced by suppliers unbundling. A MAP database and billing solution will continue to be required as will a DTN interface.
- Less efficient purchasing as some suppliers do not require MAP for new meters or for those replaced as part of the recertification programme.
- Increased Supply Chain risk as DNO's have less market power to influence meter suppliers.
- Fixed management costs associated with technical support, asset management and procurement.
- A more rapid reduction by suppliers in the number of multi-rate meters compared to single rate meters. This would occur because there are more site visits to these customers due to tariff changes and faults. In many cases, multi-rate metering is a legacy requirement and will be replaced by single rate meters, or by a much cheaper and more reliable technology solution.

We believe the proposed price caps would allow the DNOs to recovery sufficient revenue in a non-competitive market. We do not feel the price caps are still yet adequate to reflect the additional costs arising from servicing a competitive market including those highlighted above. We believe that competition will force better service and superior risk management, and hence improve subsequent pricing, however price caps that are set too low will discourage suppliers from seeking competitive metering services. DNOs can then choose to compete with competitive meter service providers by managing and allocating risks efficiently, rather than being "forced" to do so.

Prepayment Asset Base

We agree that suppliers should not be discouraged from replacing PPM meters to meet their overall needs, but we question whether the mechanism proposed to protect previous investment will be sufficient. We foresee a relatively quick replacement programme by suppliers of, for example, token meters. Any increase in the price cap reflecting the reduced life will not recover the lost revenue if the token meters have largely been replaced in 1 to 2 years.

Standardisation of MAP Charge

CML welcomes the approach taken by Ofgem in standardisation of charges and the transparency of different costs of technology.

Comment on Pricing Methodology

We have some concerns as to the underlying assumption on asset lives, and would point out that existing meters have a somewhat artificial life,as the DNO does not bear the costs of installation (these are paid transactionally through MOp charges to suppliers). As a consequence, a meter removed due to a functionality change may be redeployed and its full certified life realised, even in its last year of life, as the costs are borne by the supplier. However, in any future unbundled MOp scenario, the meter would be returned to the DNO who may not have any opportunity to re-deploy the meter as a MAP, as no further new MAP services may be required, or the Supplier may not be willing to pay a MAM to redeploy an old meter.

MOp Revenue Cap and Drivers

CML recognises that some DNOs will have different cost drivers reflecting regional labour costs, the historic asset base, and the regional differences in demographic drivers.

In addition to variables that Ofgem are proposing to run regressions on, CML suggests Ofgem should also consider the effects of:-

- the levels of transparency in charges that DNOs have published and whether Suppliers have adjusted their job requests accordingly - e.g. charges for 2 hour or timed appointments;
- The proportion of multi-rate meters and the type of time control device that is in place, as these lead to varying volumes of customer visits associated with either faults or meter reading discrepancies;
- The volume of functionality changes due to transient populations in rented properties and different micro economic drivers.
- Prepayment meter volume risk.

Conclusion

CML believe that where optimistic/unrealistic costs and assumptions are allowed to prevail for certain DNO's, and these are translated into price caps competition in the electricity meter market, it will be problematic as Suppliers may solely seek MAP and MOp services from that regional DNO. As stated previously, we would rather see a price cap set that reflects the risks of the unregulated market which we believe will improve service, and allow competitive tension to optimise risk allocation and set prices accordingly.

We welcome Ofgem's transparency in setting future price control, and Capital Meters will provide any further information where we are able, if required.