

Monday 25 October 2004

Martin Crouch  
Director, Distribution  
Ofgem  
9 Millbank  
London SW1P 3GE

Dear Mr Crouch,

**Re: Electricity Distribution Price Control Review, Update paper,  
September 2004 – Metering controls**

Thank you for the opportunity to comment upon the proposed licence changes, I am providing consultancy services to metering companies, although these are my own comments and in no way reflect the comments of past, current or future clients.

Generally the proposed changes are as anticipated although I would like to comment on the following aspects:

Para 2.1

Fully support the introduction of competition within metering, although the electricity industry seems to be consolidating back into vertically integrated organisations from generation, distribution, supply, data collection and metering. This is a worrying trend, resulting in regulation is being used to substitute for true competition.

Para 2.2, 2.3

I fully support Ofgem's approach of ensuring metering services are cost reflective, this is the best way of ensuring competition introduces new solutions to the metering market. I am aware that this process, together with others within the industry, are making suppliers aware of the true costs of the existing prepayment metering technologies. Only by revealing these true costs will new technology gain a foothold.

Para 2.4 & 2.5

Termination charges are a simple concept, although difficult to implement in practice, although I will comment later on the viability of your proposals.

Para 2.6

These proposal definitely improve the opportunity for a competitive market to develop.

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### Para 2.7 & 2.9

The level and basis of these charges seem reasonable. I fully support the approach of a single national cap for each meter type.

### Para 2.8

This approach seems sensible, although some DNO metering companies would probably offer an optional alternative technology, in particular, if they had adopted a new preferred technology since 1 Jun 2003.

### Para 2.12

The “expected useful life” is the key variable. The “Certified life” – as determined by Ofgem – should be the basis of this depreciation. The Certified Life should be reduced by an clearly identified & fixed period to allow for the earlier replacement of meters for the following reasons: faulty, functionality change, disconnected or demolished premises. Different DNOs should not be able to set different periods for these reasons.

### Para 2.14 & 2.15

The Opex & overheads for MAP should be minimal, including procurement of new meters, and a proportion of the billing costs (which may be included with MOP when both services are provided). If the DNO metering activity withdraws from meter provision in 2007 then the procurement element will disappear completely.

### Para 2.17 & 2.18

A domestic (or I&C) credit meter is only visited by a metering technician when it needs attention, either it is faulty, and will be replaced, or for a functionality change. Competition will not change this, as the differences in MAP rental between a DNO metering company and another competitive company is going so small that it would take many years to recover the visit cost by any difference in rental charges.

### Para 2.19

Whether the meter is changed or not is not only a feature of the MAP rental, but the PPMIP costs, and the technology or customer service experience that the supplier wishes their customers to have. Now that the true ‘whole life’ costs of prepayment metering customers are becoming visible then it become more likely that a variety of prepayment technologies will develop.

### Para 2.20, 2.21 & 2.22

The concern with the approach proposed is that as the ppm meters are removed early the rental of the remaining of the population increases. Therefore the supplier/metering company that removes the meters earliest has the effect of increasing the costs of his competitors who have not yet removed the meters. This is actually a perverse incentive that encourages the early removal of perfectly functioning ppm meters, which is not in to the benefit of UK plc.

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The alternative proposal of a termination charge provides the correct incentive of removing the meter towards the end of its useful life. The termination charges should decline with the age of the meter, at year 0 being high (effectively the purchase cost of the meter) by year 10 the termination charge would be nil. It should be noted that the original installation charges do not feature in the MAP termination charges, as they were paid for at the time of installation, and are not included in the MAP depreciated value – this can be expected to be different for new competitive metering companies in the future.

This approach would ensure functioning meters remain installed, although if a supplier can achieve sufficient 'whole life' savings they can replace a meter at any stage of its life. The administration of this mechanism would be noticeable, as it would need to be achieved on a meter-by-meter basis for each supplier. This alone may result in a DNO not adopting such an approach.

### Para 2.23

The information source is probably the best available, although the basis of the charging between third party metering service providers and DNO metering activities may not be truly cost reflective. A number of these third party metering businesses were sold by the DNOs together with a period contract for the provision of the services back to the DNO. It is possible that the overall transaction may have been structured such that the sale price was inflated by inflating the charges for services over the period of the services contract. Generally few (if any) of these service contracts have been tendered for by competing service providers. That said, this is probably the only approach open to Ofgem.

### Para 2.24 & 2.25

My own experience of trying to compare the differing published DNO metering services makes it virtually impossible to make a meaningful comparison with many charges highlighted, some of which are not (apparently) in practice actually charged.

It would be appropriate to have visibility of the various services included in the Opex, although recognising that many DNOs would not want the specific costs revealed.

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Para 2.27 to 2.29

Using the meter numbers from table 3.4 of the June consultation document together with the proposed opex figures in the September document, the following comparison of the opex per meter by DNO can be derived:

DNO	Meter Numbers	£m/annum	£/meter/annum	Percentage of average
United Utilities	2,417,327	4.9	2.03	60%
SP Distribution	1,994,387	4.5	2.26	67%
SP Manweb	1,399,107	3.4	2.43	72%
EDF – LPN	2,351,136	7.1	3.02	90%
CE – YEDL	2,487,183	7.9	3.18	95%
CN – Midlands	2,442,000	8.3	3.40	101%
EDF – EPN	3,413,373	11.7	3.43	102%
SSE – Southern	2,799,197	9.7	3.47	103%
SSE – Hydro	793,496	2.8	3.53	105%
CN – East Midlands	2,463,244	9.4	3.82	114%
EDF – SPN	2,181,927	8.6	3.94	117%
WPD – South Wales	1,065,452	4.5	4.22	126%
WPD – South West	1,500,583	6.5	4.33	129%
CE – NEDL	1,709,741	8.1	4.74	141%
<b>Total/average</b>	<b>29,018,153</b>	<b>97</b>	<b>3.36</b>	<b>100%</b>

The DNOs which use third party providers have been highlighted in blue. The variance in the rate per meter is significant, ranging from £2.03/meter per annum through to £4.74/meter annum. The differences between companies can not be immediately explained. The DNOs with a smaller meter population might expect to be at the higher end of the table, yet SP Manweb is third cheapest, and the largest DNO area – EPN is plum in the middle. EDF - LPN traditionally has high labour costs for operating in central London, yet it appears in the lower cost part of the table. Similarly SSE – Hydro, which one would expect to be at the higher end of the average costs, is along side its sister company, perhaps indicating a smearing of costs between the two operations.

As you discuss the Opex allowance with each company it would be realistic to expect the figures to coalesce around the mid-point grouping (grey in the above table). As these will set a baseline for the next few years, it would be appropriate to publish the volume of activities (but not the individual financial values) used to derive the above table.

Para 2.30

I agree with this approach.

Para 2.31 & 2.32

The comparison in paragraph 2.28 is only valid whilst DNO metering companies are performing all the metering activity in their DNO areas, which is an appropriate basis as the figures from last year will not be significantly impacted by the new entrant activity. However this will change this financial year and beyond.

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The Meter Operator activity is broadly in two parts, a data management element (office based staff & associated computer systems) and field based staff. The competitive market could develop in two different ways, determined by the suppliers strategy: move the whole MOP activity and field work to a competitive company, leaving the DNO MOP without any role; or, transfer replacement meters to a competitive company, leaving the DNO to act a 'MOP' for the more recent meters, which would not need any visit.

I believe the former will become the prevalent model, therefore basing the volume on the number of meters is an appropriate revenue driver. Although if the second approach is adopted by some suppliers, then the DNO MOP can be expected to introduce a 'data management' charge, of up to a £1/year. I would therefore support the concept of a two part revenue driver, numbers of meters at up to £1/year, and the a chargeable visit component of the remaining £2.36/year.

I do not expect many suppliers to be sufficiently motivated to differentiate between multi-phase and prepayment metering to make a revenue driver differentiation worthwhile. I see no rational for a dummy variable for the type of prepayment technology, as stated elsewhere the significant MOp cost is the visit cost, this is irrespective of meter type.

### Para 2.33 to 2.35

The commercial agreements are not easily visible, either before or after 1 June 2003, as at 2004 many DNOs had not updated their agreements to reflect the differences between MAP & MOp.

The supplier has an obligation to provide 2 hour banded appointments, and other metering obligations under the Statutory Instrument - Electricity (Standards of Performance) Regulations 1993 (as subsequently amended), until the supplier has made new commercial arrangements they must be able to obtain these services from the DNO MOp, otherwise they are in breach of their licence. Ofgem making a determination to the contrary would be perverse.

### Para 2.36

This is an good concept, although converting it into a unambiguous licence obligation is going to be difficult. There are many scenarios to consider. One scenario that must be safeguarded is that where a commercial metering provider installs a meter for one supplier, some months later the consumer changes supplier to a supplier who normally uses the DNO MOp, this DNO MOp is currently obliged to offer metering services (as long as it can 'service' this meter type, which only becomes an issue if some alien prepayment technology is used). This is essential as it allows some smaller commercial metering companies to enter the market.

In conclusion, the proposals have moved on a long way since June, although there is considerable detail still lacking, which will be a challenge for Ofgem to introduce in the next few weeks before the November documents are released. One area of detail still lacking is an unambiguous definition of the metering

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system for which the MAP owns, in my view it should be:- from the outgoing side of the DNO cut-out through to the outgoing terminals of the last piece of metering equipment (meter, time control device, or isolator).

If you would like to discuss any of these proposals, then please do not hesitate to phone or email.

Yours sincerely

Tom Chevalier  
Director  
Tom.Chevalier@PowerDataAssociates.com