

Mr Martin Crouch
Director, Distribution
Ofgem
9 Millbank
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25 October 2004

Dear Mr Crouch

Electricity Distribution Price Control – Supply Business Views on Metering Proposals

We are responding as a supply business and these comments should not be seen as an E.ON group view.

The following comments are structured to follow Ofgem's document.

Meter Asset Provision

We support the proposed structure. It would not be justified to have regional caps for the same technology, but where there are significant cost differences, as with prepayment meters, we are comfortable with separate caps. As Ofgem note in the Draft Impact Assessment there are many factors other than meter asset charges in determining PPM pricing policy, yet setting a PPM cap too low would certainly inhibit development of improved technology. For instance, the basis of the calculation of the caps is not stated, but there should be a realistic assumption over the asset life – prepayment meters are commonly removed before the end of their certified life.

The price caps are stated to be in 2002/3 prices, but as these are capital costs escalation would seem inappropriate.

We would prefer a more certain arrangement to cover DNOs risk of stranded assets than the proposal (2.20) for review. Ideally the arrangement would mirror that which would occur in a competitive market –

either a higher price, if the DNO bears the risk, or alternatively some kind of termination restriction or termination payment. In gas metering, suppliers can choose between these arrangements and those suppliers wanting flexibility to swap meters at an accelerated rate pay a higher price.

Clearly any termination payment has to be justified by the meter not being able to be reused, and also consistent with the assumption in the cap over meter lifetime, but the option should be available to DNOs.

Meter Operation

The next two years promise to see significant competition in MOp services, but the majority of customers will continue to be supported by price controlled operators. The risk in an overall revenue cap is that DNOs will provide the minimum contractual service. If it can be realised, a more flexible approach would be a price control on key activities, such as single rate, single phase meter exchange, with other services controlled by a non-discrimination obligation. Ofgem will also need to specify a principle for overheads allocation, so that these are uniform over all activities and not proportional to costs – which would unfairly affect prepayment customers.

Such an approach would avoid the complexity of the proposed regression analysis and price control formula based on a number of variables. For instance, the volume of visits can vary significantly from year to year due to the requirements for statutory change.

Inclusions and Exclusions

We welcome the proposal to treat revenue protection as an excluded service as this will allow innovation and the development of this service.

We would also like to see MPAS as an excluded service. It could greatly facilitate implementation of changes proposed by the Customer Transfer Programme if there were no disincentives towards any changes which affect MPAS.

Basic Services

Although we are concerned at the level of service received under the JPW agreements, the mix of timed appointments is not an issue.

One Way Door

We agree with the principle that a supplier who has moved away from the DNO should not retain a right to use them on a 'last resort' basis.

If you wish to discuss any of these comments, please do not hesitate to contact me on 0870 419 1617.

Yours sincerely

Graham Kirby
Retail Regulation Manager