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Jenny Boothe
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9 Millbank
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11th April 2005

Dear Ms Boothe,

Response to consultation paper 78/05 - The proposed restructuring of National Grid Transco's metering business

Siemens Energy Services Limited (SESL) is a competitive provider of a wide range of metering services to the utilities industry covering Asset Provision, Asset Maintenance (Meter Work) and Asset Management, Data Retrieval, Data Processing and Data Aggregation, Prepayment Revenue Protection and Debt Recovery. SESL is a truly independent competitor in that no part of its parent structure has any corporate connection to any utility company. SESL receives no business from within its group structure. SESL is wholly owned by Siemens PLC; its turnover in the UK is about £100m and its headquarters are in Nottingham.

SESL has the following comments to offer in response to Ofgem's request for views concerning its March 05 consultation paper 78/05 - The proposed restructuring of National Grid Transco's metering Business.

Summary

The key points of SESL's response are as follows:

1. The actual internal resource of both TMS and UMS is unclear. It is therefore difficult to assess what the scope of the proposed new entity would be.
2. In the recent past Transco has contained separately from TMS and UMS considerable operational resource, data and know-how in metering services. It is unclear if this is to be transferred to the new entity or retained within NGT.
3. It is unclear whether it is proposed that NGT will continue to offer any support to the new entity which it does not offer on identical terms to other metering services companies.

General Comments

SESL responded to Ofgem's Dec 03 paper Competition in Gas Metering Services: Proposed Licence Amendments. Many of SESL's key concerns as expressed in that response still apply. In particular, the opening of metering services to competition is severely hampered by unbalanced access to historic data. The provision of metering services is increasingly inseparable from the need for a full asset ownership and rental package, which in turn requires typically tens of millions of pounds of capital investment. The cost of capital is a direct function of the risk involved, and a fair assessment of these

risks is critically dependent on knowledge of recent industry experience. This knowledge has passed easily out of the regulated domain and into the “competitive” arms of the major utilities, but is not available to independent companies. In SESL’s view this is an unfair situation which restricts the ability of independents to compete in the market.

SESL sees no reason why detailed historic data which was collected by regulated monopolies cannot be placed in the public domain, so that all competitors can use it to develop their best possible value propositions to the ultimate benefit of the consumers for whom this forms part of the total cost of supply. A measure of the anti-competitive effect of this imbalance is the relatively small number of independent companies that have managed to enter the metering services market. To the best of our knowledge there are only two, and consolidation amongst the major utilities continues to erode their market share.

Section Specific Comments

Section 2.3

SESL agrees that the RGMA project made great progress in defining and standardising the industry-wide business processes and supporting data flows to underpin competition in gas metering services; however it would not be correct to say that this had reached a level where inter-operability across the industry was guaranteed.

Also, RGMA may have completed the separation of Transco’s transportation and metering businesses but it has clearly not established a separation of Transco’s regulated metering business, which enjoys the anti-competitive privileges outlined above, from its competitive metering business. SESL is extremely concerned that the proposed restructuring of Transco’s metering businesses will unfairly consolidate the flow of old “industry” data into one market competitor.

Section 2.8

SESL notes that Transco has been able to “reduce rental prices...to provide contractual flexibility for NGT’s future metering strategies” but questions the coincidence of the timing of this reduction with the start up of the first competitive operators. There is a danger that the new ability of Transco to offer reduced prices will be attributed to the availability of cross-subsidies from within the regulated domain

Section 2.11

SESL supports the principle of Transco selling off some or all of its Distribution Networks. SESL would also support the principle of Transco selling off its installed meter base as this would set the economic base for a level playing-field for all competitors in future.

Section 2.13

It would seem appropriate that in the event that Transco withdrew from large-scale meter asset provision the Supplier should become the meter provider of last resort, and that Suppliers should be obliged to offer a discount to any consumer who makes his own metering arrangements provided they are compliant with regulations.

Section 3.3

SESL notes that Transco’s desire is to “have a metering organisation capable of working effectively in the newly competitive multi-utility metering market” and would note that this is the goal of all independents operating in this market. SESL believes that it is anti-competitive that one competitor should be allowed to benefit from its special relationship with a dominant utility.

SESL supports the proposal that the restructuring would “provide an even clearer distinction between NGT’s roles of transportation and metering” but observes that it contributes very little to the distinction between legacy business and new competitive business within

metering itself. SESL notes that the published TMS business figures for the year to 31 Mar 04 of Net Sales of £11m (and a pre-tax loss of £13.5M) appear to be incompatible with the business of handling all service provision for P&M and MSA on behalf of Transco. In this respect, the current structure is far from clear – please see the comment on 3.13 below.

Section 3.12

SESL supports the proposition that metering assets will be transferred from Transco plc to UMS at market value. Clearly any underestimate of this value will represent a permanent subsidy to UMS from Transco with unfair repercussions on external independent competitors.

Section 3.13

SESL supports the proposition that of TMS being sold to NGT Metering at market value, but questions whether TMS, given its small turnover, actually contains the substance of Transco's metering services resource. If the new NGT Metering company is to continue to procure substantial resource from Transco, then SESL believes that Transco should offer the same terms to all competitive metering service providers.

Section 3.14

SESL does not support the proposition that the MSAs between Transco and Suppliers should be novated to UMS. These contracts were negotiated from a position of dominant strength by what was at the time a de facto regulated national monopoly and were handled by TMS, a business separate from the competitive activity of UMS. SESL is concerned that the proposed changes may create a perception that separation has not actually occurred and that, due to its place in the Transco group, UMS has enjoyed preferential market positioning, preferential access to data and know-how, and preferential use of systems and processes.

It is SESL's view that Transco, as a regulated business, should bear certain obligations, and that these should apply evenly and fairly not only to all Suppliers but also inter alia to all metering service providers. Thus any benefit which may be available to a new competitive unregulated services company like NGT Metering should also be available to all others. It is difficult to see how a novation of contracts in favour of NGT Metering is consistent with a fair competitive market.

Section 4.2 (Issue 1)

It is SESL's view that there has been little or no outside (i.e. beyond the Supplier community) awareness of Transco's plans to consolidate its regulated and competitive metering businesses and that the proposed merger is not consistent with previously understood undertakings concerning separation and fair competition. SESL cannot comment on the visibility of these developments to suppliers. SESL observes nevertheless that even the supplier consultation appears to have been brisk.

Section 4.5 (Issue 2)

SESL has no comment.

Section 4.7 (Issue 3)

SESL supports the proposition that there should be no "cap" on charges offered by Transco while recognising that this is a different issue from that of the proposed creation of NGT Metering.

SESL agrees that a cost-reflective re-balancing of the rental charges for credit and pay-as-you-go (PAYG) metering will result in a small reduction in the cost of meter asset provision to Suppliers for the former group and a larger increase for the latter group although there would be no overall total increase to the Supplier market. SESL would propose that provided there was no change to consumer targeting by the suppliers these changes would

have no net effect on total industry costs, so it is feasible in principle to transfer the subsidy from the Asset Provision domain to the Supply domain with no negative commercial impact. SESL also notes that lower-cost PAYG meters are already being offered in the market for installation in 2006. The proposed re-balancing of asset provision costs would therefore be followed by an immediate fall in new PAYG costs which could easily be targeted on fuel-poor consumers in a way which would not happen under the current arrangements.

In summary, SESL would argue that cost reflective meter asset provision together with (a) the retention of old balancing mechanism by the suppliers and (b) the pass-through of lower costs for new PAYG meters, would create favourable conditions for well-targeted reductions in overall cost to serve for the fuel-poor.

Section 4.16 (Issue 4)

SESL supports the proposition (in 4.23) that responsibility for meter maintenance should not fall by default upon the consumer. From first principles, the meter is part of the Supplier's (and Shipper's) billing process, and therefore the supplier should be responsible for ensuring that adequate metering arrangements are made. The supplier may choose to arrange for a MAM to meet these obligations (including asset provision and maintenance) under commercial contract, although the supplier would remain the "meter owner" within the terms of the Gas Act.

SESL also supports the principle that consumers should be entitled to make their own metering arrangements via the authorised MAM (as per section 4.19 note 12) of their choice, and that under these circumstances suppliers should be obliged to offer an explicit discount on the consumer tariff. This would enable consumers to exploit new technology that could make it easier for them to shop around or avoid unwanted services like meter-reading visits.

Section 4.25 (Issue 5)

SESL supports the view that there is no operational need or consumer demand to accelerate the replacement of meters which measure in cubic feet. SESL believes that neither cubic feet nor cubic metres have a strong position in intuitively understanding energy consumption, and provided that published tariffs enable consumers to make fair price comparisons, then the core metrology is a secondary issue. SESL does believe that some consumers, particularly the fuel poor, have a perception of how many "dial units" they use per day and that special attention is needed to explain any differences as and when a metric meter is installed for the first time.

Siemens Energy Services would like to thank Ofgem for the opportunity to respond to this consultation document, please do not hesitate to contact me should you require any further information at this stage.

Yours sincerely

Martin Pollock