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8 April 2005

Dear Jenny

The proposed restructuring of National Grid Transco's metering business

We welcome the opportunity to comment on the consultation paper for the proposed restructuring of National Grid Transco's metering business. This response represents the views of EDF Energy, which includes the licensed gas suppliers London Energy plc and Seeboard Energy Gas Limited. I can confirm that our response can be treated as non-confidential and may therefore be placed on your website.

Our key points are:

- This Ofgem consultation is welcomed and should have taken place considerably earlier. We have been concerned that the consultation process has been overshadowed by NGT's sale of its four distribution networks.
- Arrangements post transition of the DN sales and NGT's restructure of its Metering Business need to be discussed urgently and require a thorough review across the industry to ensure a safe, viable and sustainable structure is in place.
- Transco have held several discussions with senior management within EDF Energy, where they have stated their intention to restructure their Metering business.
- We seek clarity on OFGEM's position with regard to price controls on Transco's regulated meters.

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- We oppose the cost increases for low income customers or those defined as fuel poor, and are concerned with the re-balancing of costs resulting in a significant increase in rental charges for prepayment meters.
- We are concerned that a full analysis has not been completed to understand the implications of the transfer of status of the 'Gas Act Owner'.
- We believe the use of imperial meters should comply with all UK and European statutory directives, with responsibility for provision remaining with Transco.
- Please clarify how this consultation will proceed (timing, next steps, further consultation etc) in respect of this fundamental change to the Gas Metering industry.
- We believe the timescale for the restructuring of NGT's Metering business is too short and does not allow adequate time for consultation and evaluation.

I hope that you will find our comments helpful. If you have any queries on them please do not hesitate to contact Tony Neville on 01903 283098 or myself.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Linford', with a stylized flourish extending to the right.

Denis Linford
Director of Regulation

Attachment

Set out below are EDF Energy's detailed views on "The proposed restructuring of National Grid Transco's metering business: Consultation document, March 2005.

1. What are suppliers' views in respect of the extent to which they have been made aware of this proposed sale and the contract options they have been offered by NGT?

Transco have held several discussions with senior management within EDF Energy, where they have stated their intention to restructure their Metering business. The business model described at the outset of discussions in early 2004 was to create two business entities best described as legacy (pre 2004 metering assets) and commercial (OnStream) with both businesses operating within a 'Chinese walls' or 'business separation' environment. This business model has changed and Transco now intend to create a single entity incorporating both legacy and commercial metering assets. We are disappointed that Transco did not create a consultative environment for the industry to review jointly the implications of their plans.

We have been made aware on a number of occasions of the perceived benefits of the Metering Services Agreement (MSA) option and the Provision and Maintenance Agreements (PMA)/Network Metering Equipment Agreement (NMEA) from Transco. However, the restructuring has created a new context in which all of the contracts and options open to Suppliers need to be reviewed. In particular, as the MSA has been positioned as a transparent standard industry contract developed with Ofgem's knowledge and with no option for negotiation, a wider review of the role of the MSA is needed.

Transco indicated that Suppliers' processes would not be affected by the restructure. However, our recent analysis has identified contractual and operational implications upon Suppliers that need to be fully understood across the industry to ensure a safe, viable and sustainable structure is in place.

The proposed restructuring of National Grid Transco's metering business has been introduced at a time when the industry has been pre-occupied by a heavy workload associated with the sale by NGT of four of its distribution networks. We believe that this Ofgem consultation should have taken place considerably earlier in the process.

2. Whether suppliers consider that they can effectively access the price controlled tariffs for gas meters under NGT's proposals?

Transco has offered EDF Energy the choice of remaining on the current regulated provisions (PMA) for all meters, or moving to the MSA option for both legacy and new/replacement meters in all areas. We are clear on the financial benefits available under the MSA contracts, which includes a financial incentive.

We seek clarity from Ofgem on how metering price control arrangements will operate in the future, including how long the PMA arrangements will continue to be available, and when the next price review will take place. This is of particular concern now that MSA contracts cover around 95% of all domestic meters, as stated in the Ofgem consultation paper. In addition, the proposed restructuring may result in certain activities moving away from direct price control regulation without appropriate regulatory consideration or consent. It does not seem appropriate to remove the pricing control when it is clear competition so far has been very limited since RGMA went live.

Finally, we are concerned where an IDN provides new metering as Meter Supplier of Last Resort, that the relevant IDN may not have the operational capacity and functionality to support the standardised Industry processes and flows (RGMA Baseline).

3. What issues arise from the rebalancing of meter charges?

Under the MSA agreements, the cost of a prepayment meter rises to the region of £46.75 (paragraph 4.12), which is an increase of £16.77 per annum. These increased costs would be recovered through an increase in gas prepayment tariff charges, representing a significant increase for low-income customers and those defined as fuel poor. We would welcome Ofgem consulting with organisations representing these customer groups.

Eradicating fuel poverty is consistent with our company values and principles and we have demonstrated this by alignment of credit and prepayment tariffs. As such, we seek to avoid any increase in costs to prepayment customers. We support cross subsidisation to benefit the fuel poor.

The efforts undertaken by the industry to avoid debt and disconnection over the past three years will be undone as higher costs will be passed on to customers. The consultation states the impact will depend on whether suppliers pass on the rental increases for prepayment meters and decreases for credit meters. This goes against the current stance from both Ofgem and energywatch that the PPM charges are far too high and that the PPM customers gets the worst deal. Again credit meter customers could be seen to be getting all of the benefits.

Where a Supplier chooses to opt for the MSA, and Transco rebalance charges for meters under MSA, the Supplier could find themselves financially penalised where the ratio of credit to prepayment meters in their Portfolio does not reflect the national average. This could lead to Suppliers 'cherry picking' a particular type of customer which we oppose strongly.

4. Whether there are any issues raised by the proposal in respect to the transfer of the status of 'Gas Act Owner' (GAO) and the associated responsibilities that are passed on with this transfer?

Through the Gas Act, NGT is currently GAO and therefore responsible for provision of adequate metering for the assets they own, with the prices being capped by Ofgem.

Under the restructure NGT intends to pass ownership of these meters to UMS (OnStream), which is their commercial arm, with MSA novating the contract to UMS. GAO can only be Transporter, Supplier, or Consumer (i.e. not a MAM). Ofgem indicate that a strict legal interpretation of the Gas Act is that the responsibility would fall to the Consumer. Noting Ofgem's view, and that the MAMCoP does not apply to meters where the GAO is the consumer, the likely outcome is the responsibility would fall on the Supplier. We support Ofgem's view that customers should not be responsible for their own meters, however, consider the obligation should remain with the Transporter in the event that it cannot be transferred to the MAM (see below).

Can clarity be provided that under the NMEA Transco will remain the GAO for the legacy meters on the IDN networks (i.e. where Suppliers have not signed the MSA)?

It is clear that this change would have a significant impact on Suppliers' systems, with many solutions being designed to automatically deal with transactions on change of Supplier where GAO is Transporter only (others dealt with by exception). Additionally, where GAO is the Transporter in Suppliers' systems, many assume that this is Transco and will therefore automatically appoint TMAM. An extra field may be required to distinguish who the Transporter is following transition.

What is not clear is if any additional responsibilities will fall onto Suppliers (i.e. duty for replacement - linked to issue 5 below concerning the legality of imperial meters installed prior to 1980, changes to operational procedures and IT systems, etc).

We strongly believe that Ofgem should lead a full analysis with the industry to understand the implications of these changes, and to implement approved changes only. It appears that Transco is rushing these changes through, without Suppliers being given adequate time or materials to fully assess the impact to the industry and customers.

Noting that provision of a meter is essential to a MAM activity, we would suggest that a more sensible approach would be to include an additional category for GAO of 'MAM'. With the MAMCoP providing limited governance, consideration should then be given as to whether MAMs should be a licensed entity (i.e. MAMs take on responsibility of meter supplier of last resort etc).

5. Are there issues concerning the Weights and Measures Act 1985 that should be considered as part of NGT's proposal?

Through the restructure, Transco is intending to pass ownership of their assets to UMS. It is not clear whether the exemption granted to Transco on the continued use of imperial meters installed prior to 1980 will be passed to UMS. It is also unclear as to the reasons why these meters have not been replaced already for their metric equivalent, as they are now over 25 years old. This could be a significant issue under MSA, where the title owner changes then the legality of these meters could be in question. If the Supplier became the GAO

for these meters then they would ultimately become responsible for replacement in the event they were deemed illegal, which is clearly unacceptable.

We believe the use of imperial meters should comply with all UK and European statutory directives, with the liability for provision of adequate metering remaining with Transco. With an estimated 70% of Transco's in-situ meters measuring in cubic feet (paragraph 4.27) the cost of their premature replacement (estimated in paragraph 4.29 as potentially in excess of £1 billion) to the industry would be very significant and would inevitably result in much higher and very unwelcome charges to the customer.

6. Other Issues

Safety

As a Supplier, EDF Energy would welcome assurances concerning Ofgem's detailed proposals surrounding gas Regulation and Safety in an environment where Transco novates its metering business outside of TMS. Will there be sufficient regulation to secure the safety of those meters to guarantee customer welfare? This is of particular interest bearing in mind Transco's flagrant disregard of the imperial to metric situation, whereby meters have been left in situ significantly longer than originally intended and no evidence of a coherent exchange programme has been demonstrated.

Meter Replacement

Currently Transco controls the process which dictates which meters are due to be replaced each year under the meter exchange program. All suppliers should be informed indicating when all of their customers' meters are due to be exchanged. In addition, information relating to the type of meter installed and whether it is an imperial or metric meter needs to be provided. As Chinese walls will no longer exist within Transco, EDF Energy would be pleased to see Ofgem's proposals surrounding confidentiality of information to ensure that the rules of fair competition are being observed.

Way Forward

EDF Energy believes that the proposed restructuring of National Grid Transco's metering business should be co-ordinated by an industry working group, chaired by Ofgem, to ensure transparency and consistency. Further, such a working group will provide an open forum to ensure that the concerns and views of the industry are shared and addressed in the interests of customers and fair competition.

EDF Energy plc
April 2005