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Monday, 4<sup>th</sup> April 2005

**The Proposed Restructuring of National Grid Transco's  
Metering Business**

Dear Jenny,

Thank you for the opportunity to respond to your March 2005 consultation document concerning the proposed restructuring by National Grid Transco (NGT) of its metering operations.

In response to the principle issues that you have raised we have the following comments:

**Have suppliers been made fully aware of the proposals and the choices available to them?**

We have concerns with the general manner in which this process has been managed by NGT and have expressed these concerns directly to them on several occasions.

Specifically the management of both the sale of the distribution networks and the restructure of Transco's metering business by separate project teams from NGT has created problems. This has resulted in the two separate teams each refusing to discuss fundamental metering issues such as Gas Act Ownership that transcend both projects and has led to a number of issues being left unresolved.

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Other concerns to date have included considerable changes to the contract terms during the novation process. We had been led to believe during the debate concerning the sale of NGT's distribution networks that any metering contracts would be migrated very much as they currently exist and would not be substantively changed. This has not proved to be the case and considerable change has been included. This has led to additional risk and administration costs for our retail business.

Timing for the conclusion of this contract novation exercise is another issue for which we have concern. The process for the disposal of the distribution networks has been going on for sometime and yet debate concerning the future of the metering contracts commenced with a very short period of time for full discussion to be completed.

Suppliers have been given very little time to undertake due diligence on the suggested changes (at considerable cost to themselves for which there is no material benefit) with threat of no service provision post 1 May 2005.

The current timescale envisages engrossed copies of new contracts being issued by the 8<sup>th</sup> of April and returned by the 22<sup>nd</sup> April. This would appear to create an issue with this consultation exercise and potentially may result in additional administration costs for suppliers as a result of the restructuring process.

The credit arrangements to support the metering contracts that has been suggested will operate over the transfer period is another area of concern for us. The proposals to date from NGT will result in additional costs for retail businesses that eventually will be borne by customers and are we believe unnecessary.

### **Can suppliers still affectively access the price controlled tariffs for gas meters under NGT's proposals?**

There has been no opportunity to discuss the supplier of last resort metering contracts directly with the new independent distribution network owners and nor is it clear as to where the governance of these arrangements will be managed going forward.

The governance of these services, a required service from all gas transportation businesses, should be appropriately controlled in the future and managed in a responsible and cost effective manner. This would ensure that a fragmented approach does not add unnecessary administration cost upon the downstream gas industry.

Co-ordination of these contracts would appear to fall within the potential scope of the responsibilities for the Joint Office. This would ensure that a standard contractual offering is produced and that administration is controlled and efficiently managed.

**What is the impact of the proposed re-balancing of charges for credit and pre-payment meters under the contracts novated to NGT Metering?**

The loss of the current cross subsidy of gas pre-payment metering by credit meters is an inevitable consequence of metering competition.

We have been notified by NGT Metering of the anticipated increase in pre-payment metering costs but have yet to see a specific figure. We would also expect to see a corresponding reduction in credit metering charges beyond those announced prior to this restructuring exercise. These costs specifically did not take into account the removal of the pre-payment cross subsidy.

Without a suitable rebalancing of NGT's credit metering costs there is a predictable risk that suppliers will be forced to consider their tariff pricing for domestic customers.

There has also been little substantive justification for the level of increase in the cost of pre-payment metering proposed by NGT Metering. In addition, the level of increase (as yet to be confirmed) seems inconsistent with current market prices.

**What is the potential impact of the transfer of Gas Act ownership from the transporter to the supplier for companies using the contracts with NGT metering?**

The proposed change will result in considerable administration and systems development costs without any benefits for suppliers or customers. There is at present no published methodology from Transco to co ordinate these changes and facilitate a smooth transition.

There continues to be considerable uncertainty as to how the change of supplier processes will operate in the future following the Gas Act ownership transfer of a large proportion of the metering portfolio. This should be resolved prior to the restructuring being allowed to take place.

**The risk to customers and suppliers relating to meters recording in imperial units?**

The assertion by NGT that suppliers and therefore gas customers should be made responsible for the provision of replacement metering as a result of the Weights & Measures Act 1985 issue is totally unacceptable.

Before we would be happy for any restructuring of NGT's metering business to take place we would wish to have reassurance from Ofgem and the DTi that the continued use of these meters is legal.

**Other comments regarding this issue**

The issue of bailment has not been concluded during the discussions that have taken place to date regarding the restructuring of NGT's metering business.

The potential cost to gas suppliers and the inconvenience and confusion to gas customers is considerable as every customer will have to be notified of the transfer of the ownership of the meter on their property. Resolution of this issue needs to be concluded before the restructuring should be allowed to go ahead.

The issue of Post Emergency Metering Services also requires satisfactory conclusion following the sale of the NGT distribution networks and the restructuring of its metering business. The gas distribution network operator is the only practical provider of this service. Suppliers can draw

no comfort that this service will be provided in the longer term. Further more the governance of this service provision, following NGT's sale and restructure is not clear. There is a risk that consumers will be adversely affected by the current lack of clarity in regards to this area of metering.

If you have any questions concerning any aspect of our response then please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'AGT Travell', with a stylized flourish at the end.

Alex Travell  
Head of Supplier Management Development  
Retail Regulation