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Andrew MacFaul
Head of Better Regulation and Co-ordination
Ofgem
9 Millbank
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2 February 2006

Our Ref: 06315LTR06

Dear Mr MacFaul,

Response to Ofgem's Proposed Corporate Strategy and Plan 2006-2011

This letter describes Sentec's views on Ofgem's strategy document 13/06.

Firstly, Sentec is UK's leading utility meter innovation company. Our business model includes R&D into new technologies for utility metering and licensing technologies to meter manufacturers. We therefore, openly declare an interest in the rapid adoption of new technology in metering.

Your strategy document identifies smart metering as a potential contributor to behaviour modification and, hence, energy saving (your theme 5). This conjecture has been explored by DTI's smart metering working group and seems to be well supported. Smart metering may also have other direct and indirect impacts on Ofgem's objectives through unexplored business processes such as:

- allowing consumers to switch (or be switched by their supply companies) between gas and electricity. This might contribute to 'Helping protect the security of Britain's energy supplies', your theme 3, by ensuring peak loads are managed effectively
- allowing supply companies to actively manage demand using remote measurement and control equipment (for example, turning down the heating by 1 degree). This might contribute to 'Helping protect the environment', your theme 5, by reducing overall consumption
- providing guaranteed energy levels and mechanisms for securely charging the costs to the appropriate government department through secure, cash-free (pre)payment systems. This might contribute to 'Helping to tackle fuel poverty', your theme 6.

Many such business applications require low cost smart meters that have reliable and secure communications to the supply companies in order to be economically feasible. Smart meters and communications are available now but, as with any new electronic devices, actual prices depend on the volume of manufacture and manufacturers' confidence to invest heavily in the product design and production tooling necessary to achieve low unit cost.

Sentec believes that, if government shows a lead by setting appropriate national requirements for functionality and so defines a sizeable market, industry can and will respond with cost-effective products.

As it stands, Ofgem has set business structures for both gas and electricity metering that obtain savings in metering service costs through vertical disintegration of the businesses and the introduction of competition at each layer. Some side effects of these structures are that:

- the supply companies (the main potential beneficiaries of the technology) do not necessarily own the meters
- better technology does not add significant value to the services of meter operators (competition is mainly on cost)
- supply companies, meter owners and meter operators are unlikely to invest in technology for fear of having 'stranded assets' when consumers switch suppliers.

So, forcing competition in meter service costs (theme 1) has directly and negatively impacted on the introduction of smart metering and the realisation of themes 3, 5 and 6.

Sentec believes that environmental, security of supply and social policy considerations already outweigh the benefits of any further reductions in meter services costs.

In Sentec's opinion, Ofgem needs to:

- consult with stakeholders to determine new business processes that would contribute to themes 3, 5 and 6
- consult technology companies and meter manufacturers about the costs and lead times for introducing appropriate new technology
- at the earliest possible date, 'flag' a change in strategy to the metering markets so that manufacturers will have the confidence to develop new products
- restructure the market to encourage the introduction of the new business processes and products.

We note Ofgem's press release of yesterday regarding the new smart metering initiative. We will read the consultation document ('Domestic Metering Innovation') in detail and would like to be involved in the development of policy in this area.

Yours sincerely

Tom Fryers
Commercial Director