Metering Price Control Review
30 June 2006

Chapter 1

No Questions

Chapter 2: Gas Metering Price Controls

Question 1: Is it necessary to review the price controls on gas meters prior to the conclusion of the Competition Act investigation?

Question 2: Is it necessary to reset the level of the cap on gas PPM meters prior to conclusion of the investigation?

Chapter 3:

No Questions

Chapter 4: Review of Electricity Metering Market

Question 1: Have we identified the key characteristics and dynamics of the electricity market

No, the following points need be included:

i) *DNOs have the obligation to provide metering services in their home areas on price control terms to suppliers. However they can (and do) outsource that service to other metering service suppliers through a competitive tender process.*

ii) *The supplier is under no obligation to contract with the DNO under these price-controlled terms. They can negotiate an alternative contract with any metering service provider.*

Question 2: Have we identified the key developments in the electricity market over recent years?

New metering technology e.g. Automated Meter Reading (AMR) meters is a key development. The risk of asset stranding arises on change of supply for the party who owns the meter if the cost of the meter has not been fully recovered during the period of supply. The review states that suppliers are now offering longer term contracts and this would help to manage stranding risks for meters. Does this mean that the customer by installing a new type of meter could be restricting their choice in terms of energy supplier? We believe that any customer that contracts directly with a metering service provider should be the same position as if operating in the half-hourly market. In this way contracts for supply become portable.

Another key development is the decision by EDF Energy plc to withdraw meter data services from electricity suppliers that are not affiliated to EDF. It has previously *been assumed that economies of scale and density would ensure that a supplier with an in house metering data services would have an incentive to offer that service to other suppliers. Other suppliers may follow EDF's lead.*

Currently this can't happen with respect to metering services because of the current DNO obligation. However if this is removed, then a similar decision could be taken by EDF or any of the other major suppliers with an in-house metering service. This is a significant area of concern for smaller independent suppliers as they may not be able to find or negotiate a comparable metering service.

Question 3: Have we identified the factors which determine whether suppliers use the market to meet their electricity metering needs?

There are different categories of supplier each with their own incentives and strategic aims e.g. five major suppliers with their own in-house metering business, one major supplier without their own in-house metering business and other much smaller suppliers. Each category of major supplier will have identified different factors which determine whether they use the market for their electricity metering needs and smaller suppliers are not in a position to negotiate better terms that those offered under the regulated service.

Currently suppliers can "opt out" of the regulated DNO service. However regulation ensures that there is a "default service" provided by the DNO at a known price. It is absolutely essential that this remains as a safeguard especially for smaller suppliers.

The review suggests that under the current price control a customer with basic metering is getting a very competitively priced service.

Question 4: Have we made a fair assessment of the prospects for further development of the electricity metering market?

It is difficult at this stage to assess the extent to which competition in electricity metering services may develop. As the report states, there is only one supplier who has so far successfully competitively tendered for metering services.

Arguably British Gas is a special case. They are the only major supplier without their own in-house metering business. Their customer base is large and has a high proportion of domestic metering. They can not be compared with other non-incumbents and hence their negotiating strength is not comparable.

The report suggests that the current price control may be set too low and against this metering service providers will struggle to compete with the price. If when setting a new price control you take into account the targets under the Energy Services Directive, then this could see the price legitimately rise (assuming a reduction in asset base of basic metering). However if you do raise the price control then there is a strong case for strengthening discrimination and anti-competitive behaviour clauses such that any metering business with a dominant market share can not discriminate on the basis of size or duration of the contract. It would seem inappropriate to "artificially" increase the price control in an attempt to encourage consumers to switch to smarter meters.

Chapter 5: Recommendations for Electricity Metering Price Controls

Question 1: Should the electricity meter price caps be allowed to fall away on 31 March 2007 in respect of meter operations and the provisions of new replacement meters?

No, not at this stage for the following reasons:

- *Insufficient competition in meter provision (according to the report less than 1% of meters are provided by competitors)*
- *Insufficient competition in meter operation (according to the report around 20% of this market is provided by competitors and this is as a result of only one tender)*
- *Insufficient negotiating strength especially smaller suppliers (some protection is required)*

Although meters typically last between 10 to 20 years, customers, particularly in the non-domestic market, do require site works such as meter re-positioning, upgrades etc. There is also a market for new connections. Removal of the DNO's obligation and the price cap will have an immediate effect on this area of business.

However, regulation could be relaxed under certain conditions (i.e. define a trigger). For example:

i) *X% of the market for metering provision is competitive (captive contracts between related parties)*

ii) *Y% of meter operation market is competitive (captive contracts between related parties)*

There is probably a strong case for some sort of price cap. As not all suppliers would have the sufficient negotiating position to obtain a competitive priced contract. It is important that New Entrants and Small Suppliers are not discriminated against owing to the size of the contract they potentially offer or the duration of that contract.

Question 2: Should the price controls on legacy electricity meters be maintained at least until 2010?

Yes. However, as in the previous question, this could be a trigger based on certain conditions rather than a date.

Question 3: Are the concerns over potential issues for small and/out of area electricity suppliers valid?

Most definitely, as stated small suppliers (that are not affiliated to an incumbent metering business) will face great difficulties in procuring competitively priced metering services once controls and obligations are removed.

Question 4: If so, would a non-discrimination obligation on suppliers be an appropriate response to these concerns?

It would be beneficial to strengthen any Non-Discrimination clauses. However, it is unlikely that this would offer sufficient protection for New Entrants and Small Suppliers for the following reasons:

- *The price cap is a readily available published figure and hence there is a transparent "default service".*
- *Suppliers with in-house businesses may still offer metering services to third party suppliers on the same terms as they do in-house. However there may be a way of offering the same terms, but the resultant average price per meter type varies according to the number of meters or duration of the contract or some other factor which differentiates between suppliers.*