

**Final Response to Ofgem's Consultation on Metering Price Control
Review
(Ref. 108/06)**

**CAPITAL METERS LIMITED'S RESPONSE TO OFGEM'S
CONSULTATION PAPER
ON METERING PRICE CONTROL REVIEW**

AUGUST 2006

Executive Summary

This review of metering price controls is a major opportunity to boost competition in the provision of metering services and to remove the current distortions in the market arising from the current form of DNO metering contract. The review allows Ofgem to implement the withdrawal of price caps as stated within the previous Ofgem statement¹ in 2004 and in accordance with the original schedule.

The metering services market is not perfect but is healthy enough to respond well to the removal of price regulation, especially if linked to more commercial contracts between DNOs and energy suppliers. The risks would gravitate, through normal commercial practices, to the contract party best able to manage and price the risks.

Ofgem's document sets out some of the reasons why competition has not developed more quickly. The document however, omits to mention the effect of the JPW contracts and the failure of energy suppliers to modify their IT systems away from the default appointment of the DNO. CML believes that these factors have held back the development of the competitive meter market and further entrenched the JPW contract used by DNOs.

The removal of price caps will stimulate competition if it is done thoughtfully and thoroughly and this will also facilitate the development of a proper competitive market.

CML believes that suppliers have many priorities at the moment and are so busy with big picture issues that they struggle to understand the magnitude of the DNO's charges and suboptimal management of assets. As a consequence, suppliers have failed to see the opportunities that exist in metering. This lack of priority by suppliers may support the maintenance of the status quo if controls were simply removed and no further action was taken. This lack of priority and inertia is further demonstrated by energy suppliers failure to modify their IT systems to be able to appoint commercial meter operators. The ongoing default appointment of the DNO as the MAM

¹ Ofgem's document Electricity Distribution Price Control Review, Final Proposals, November 2004 ref 265/04

upon customer churn remains a significant barrier to the development of a true commercial market.

On the assumption that price controls will be removed, as originally promulgated by Ofgem, Ofgem will need to continue to monitor the market and use its powers to maximise competition and to prevent abuse by the incumbent DNOs who remain dominant in their service areas.

CML believes that the development of the current market has been held back because:

- The price caps for meter asset provision have been set at too low a level.
- The JPW agreements were not proper arms length agreements and there has been no will to revisit them amongst DNOs. The low level of the MAP price caps was, in part a result of the conditions created by the JPW contracts.
- The JPW agreements have allocated risk inappropriately
 - DNOs bear the risks associated with stranded assets despite the fact that suppliers are best placed to manage these risks.
 - Suppliers bear the work-a-day² risks although these are driven primarily by the DNOs asset management policies.

CML supports the removal of price caps on the basis that:

- Old and new assets are treated in the same way;
- DNOs face the same risks as new entrants; and
- The distortions of the JPW contracts are removed.

CML does not believe that linking the removal of the price caps to the renegotiation of the JPW contracts would be effective.

CML believes that Ofgem should indicate that it will monitor the DNO's response to the removal of price controls in the light of their current dominance in the metering services markets in their areas.

CML believes that the simple continuation of the JPW contracts (following removal of the price caps) without a price change to reflect new risk allocation would be an abuse of the DNOs dominant position in the metering services markets. CML is concerned to ensure that the removal of the price caps does in fact lead to more competition and believes that Ofgem will have a strong role to play in this.

² Work-a day risk refers to the costs of the additional visits that are necessary e.g. to correct metering faults, replace batteries, and for the removal and replacement of meters that have reached the end of their certification lives.

Metering services contracts need to be struck on a commercial basis. Risks should be carried and priced by the party best able to manage them. This could be facilitated by Ofgem signalling that the current arrangements misallocate risks and are not economically efficient as a result.

CML believes Ofgem should require the energy companies to modify their IT systems to allow the appointment of commercial operators.

CML believes that although the removal of the price caps for both new and legacy meters and the rebalancing of many risks back to the meter services company could well lead to the published charges for metering increasing, the **overall** cost of metering services to Suppliers and ultimately customers, could **fall** as better utilisation of time and assets would result.

The removal of price caps (with appropriate oversight and signalling on the need for the DNOs not to abuse their dominant position) is an opportunity to accelerate the development of competition in the metering market and to remove the distortions and privileged position currently enjoyed by the DNOs under their JPW contracts. This would give a boost to competition in metering and might even kick-start the market for more innovative meters.

Introduction

This review of metering price controls is a major opportunity to boost competition in the provision of metering services and to remove the current distortions in the market arising from the current form of DNO metering contract.

As indicated in our response to Ofgem's consultation on Metering Innovation, Capital Meters Limited (CML) is a relatively new market entrant providing and installing meters for several clients, the largest of whom is British Gas. CML has direct, practical experience of operating as a stand-alone metering business in the competitive metering market.

This response is structured as follows:

- Impact of the Competition Act Investigation.
- CML's view of the Metering Services Market including the consequences for the price controls.
- Conclusions.
- Appendices:
 - Examples of inappropriate behaviours driven by the current JPW contracts for metering services.
 - A table of responses to the questions in the consultation paper.

Impact of competition act investigation

There is an understandable and unavoidable need to proceed carefully, with regard to the Gas Metering review due to the Competition Act investigation. There needs however, to be a relatively quick conclusion to the investigation in order to avoid delaying the development of the electricity meter market as gas and electricity metering services are closely linked.

It is likely that any supplier planning to issue an invitation to tender for metering services will wish to cover its total requirement for electricity & gas meters. The uncertainty about the regulation of gas meter service prices that results from the delay associated with the Competition Act investigation may well result in a number of suppliers deferring their tendering process until the situation has been resolved. The consequence would be a further delay before the benefits of competition could be realised.

Ofgem has identified the issues associated with the current levels of price controls for gas PPMs. CML agrees that there is a need to remove the distorting effect that this is creating by allowing the rebalancing of gas PPM charges.

The remainder of this response is focussed on electricity on the basis that it is sensible to delay consideration of gas. However CML would point out that Ofgem need to be mindful of the need to accommodate gas whilst revising

the arrangements for electricity. Decisions on electricity should not be such that they compromise the review of gas metering.

CML's view of the Metering Services market

The Ofgem document omits to mention the distorting effects that the current JPW agreements for metering services (which are used by substantially all the DNOs), together with the failure of the majority of energy companies to modify their IT systems. Their IT system functionality which automatically appoints the incumbent DNO, and prevents them from being able to appoint a commercial meter operator as their MAM/MAP, results in significant market distortions.

Suppliers have many other priorities in addition to metering services. In CML's view, suppliers are unlikely to focus hard on this area at present. This means that Ofgem should not assume that new opportunities created by the removal of price caps will be seized on by suppliers. Further oversight, encouragement and action by Ofgem will probably be necessary to deliver maximum value from the removal of price caps.

CML believes that competition is developing in the Metering Services Market and that the careful removal of price controls on existing DNO Metering Services would stimulate further competition and remove the current anomalies which favour the incumbent DNOs. In CML's experience, the following features of the market are relevant:

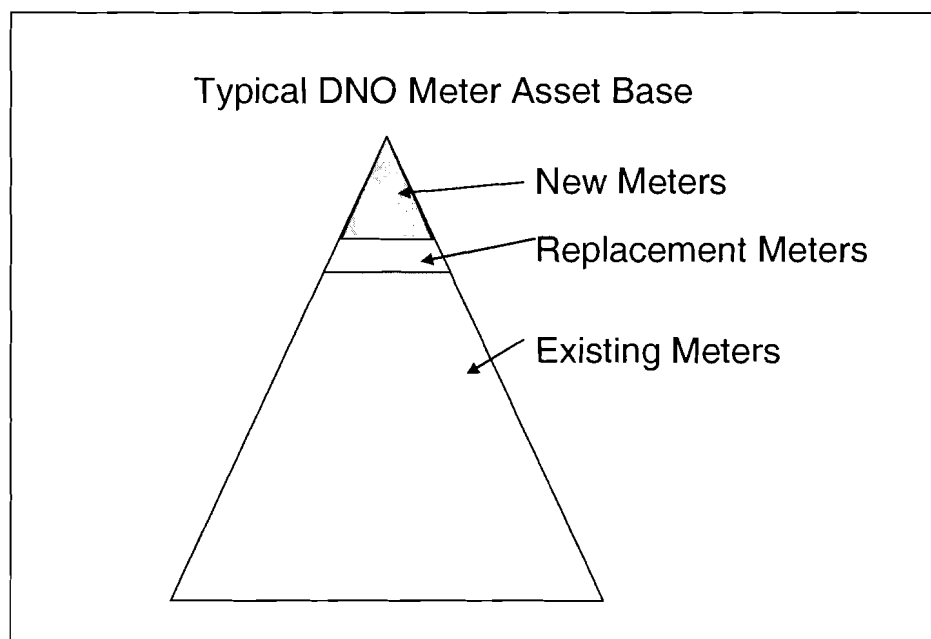
- DNO's large installed meter asset base;
- The nature of DNO's JPW metering services contracts;
- Failure of energy suppliers to modify their IT systems to be able to appoint commercial meter operators.
- Risks in Meter Services Provision;
- Supplier integration of metering service; and,
- Provider of last resort

The implications of these for the development of the market are explored in the following paragraphs.

In addition, if actual costs of metering services were correctly reflected, this would enable Suppliers to make properly informed decisions more easily including those associated with metering innovation.

DNOs Installed Asset base

It is important to recognise that DNOs have a range of metering assets and that the lives of these assets are relatively long. The following diagram illustrates a typical DNO metering asset base:



At any time, in addition to their base of Existing Meters (many of which will be over 10 years old), DNOs have New Property Meters which are installed to meet supplier or customer requirements and Replacement Meters which are installed at the DNOs instigation to replace obsolete or time-expired meters (typically under meter recertification programmes).

Ofgem have indicated through their questions that they are considering treating these different classes of meter differently. CML is concerned to ensure that whatever their treatment, a level playing field results for new entrants and incumbents. This means that the three type of metering asset identified in the diagram above should be treated on the same basis for price control purposes to avoid introducing distortions into the market.

The Nature of DNOs' JPW Metering Services Contracts

DNOs provide metering services under the terms of the contracts that they have signed with suppliers. CML believes that substantially all DNO metering service contracts follow the form of contract agreed by the Joint PES Work stream (JPW) when competition was first introduced.

These JPW contracts were struck at a time when the majority of suppliers were part of larger groups that also ran distribution businesses and, in many cases, under the old Public Electricity Supplier structure the supply business and distribution business were actually part of the same legal entity. The JPW contracts, whilst involving the suppliers, were developed by the DNOs. The suppliers appeared to have little choice but to accept them. They are the only contract form available from DNOs and are heavily in the DNOs favour with work-a-day risk with the supplier, but placing stranded asset risk with the DNO (however, only to the extent that they have no ability to redeploy the asset).

CML's experience is that this form of contract is simply unachievable by a new entrant in a normal commercial environment as suppliers rightly insist that the asset owner and service provider bear the costs of the asset performance and management related risks that they should be managing.

The JPW contracts treat the stranded asset and work-a-day risks inappropriately. In particular:

- The stranded asset risk is borne by the DNO (with limited Ofgem protection for PPM assets) rather than the supplier. As it is the supplier who determines the functionality of the metering equipment it, is the supplier who is best placed to manage and therefore price the stranded asset risk, not the DNO.
- The work-a-day risk (which includes the costs of visits to deal with asset failures) is borne by the supplier rather than the DNO. The DNO should assess the specified asset type, then price the reliability and the asset management policies and is therefore best placed to manage and therefore price the work-a-day risk, not the supplier.

In a truly commercial contract the ownership and pricing of these risks would actually be with the other party who is best placed to manage and therefore price them.

This risk allocation results in inefficiencies and distortions. For example:

Under the contract, DNOs are able to charge for visits to repair meters after asset failures. Thus, rather than carry out a planned programme of replacement in time-switches before the batteries³ and components fail (which would be a cost for the DNO's account) the DNO waits for the time-switch to fail and for its attention to be drawn to the failure by the supplier. The DNO then visits to replace the time switch and charges for the visit under the JPW arrangement. Not only does the supplier incur the costs of the visit, but they also have to bear

³ Most if not all electronic time switches contain a small battery to power the clock during periods when there is no mains supply.

the costs of the back office rework. This rework is associated with putting right any errors that have been introduced into both the customer's account and into settlements by the failure of the time-switch.

The DNO bears the impact of the failure of their asset, however the supplier bears the costs of the subsequent visit transactional charges levied by the DNO under the JPW agreement. Subsequent visit costs and customer service costs are not readily identifiable by the supplier when these arise as a result of an asset failure. The supplier therefore finds it difficult to get a true picture of their metering costs. These costs should be avoided by a programme of asset maintenance and active asset management.

Other examples of the effects of the misallocation of risks in the JPW agreement are set out in appendix 1. A fuller analysis of the JPW contracts in the current supply environment may well identify further examples.

The result of the inappropriate allocation of risk is that the DNOs are not exposed to the consequences of asset and service failure in the same way as a new entrant on a commercial contract. New entrants are forced to acknowledge and price against greater and different risks than the incumbent DNOs.

The current price control has been struck against this favourable position for DNOs which has resulted in it being set at too low a level. This has made it difficult for new entrants to compete with the DNOs.

In addition, the nature of DNOs charging under the JPW contract is not readily understandable. Transactional charges that should properly be incurred by suppliers are difficult to distinguish from those that should, with a more commercial allocation of risk, be incurred by DNOs. It is difficult for suppliers to understand where their costs could be if risks were handled appropriately and to understand the true costs of the services that they are using.

A consequence is that supplier's costs for metering services are much higher than the headline meter service and provision costs under the JPW contracts.

Of course, a group containing both DNO(s) and a major supply business in the same geographic area is much less affected by these JPW type contract issues than a supplier without an associated DNO, because the costs in the former case are mostly internal. This may explain why only British Gas (which does not have an associated DNO) has placed competitively negotiated commercial contracts for metering services. CML believe that the JPW contract form has been and could continue to be a major inhibitor to the development of competition in the market for electricity metering services.

CML believes that risks should lie where they can best be managed and therefore priced and all metering providers should face risk on a similar basis.

This may mean that the “headline” prices for metering services rise. For the reasons set out above however, suppliers should also be able to negotiate terms reflecting a more commercial allocation of risk which should lower a supplier’s transactional charges. This will tend to reduce a supplier’s costs so the overall costs of metering services could fall as a result.

The combined effect of these factors has been to hold back the development of competition and to distort the market. The continuation of the JPW contracts at the current price levels and terms, after price controls have been removed could indicate an abuse of the DNOs dominant position in their metering services markets.

Removing the price controls without a strong signal that Ofgem will be monitoring for any abuse of market dominance (together with some expression of concern about the JPW contracts in this respect) is unlikely to stimulate the DNOs into entering more commercial contracts. CML believes that there is a substantial risk that a ‘do nothing’ response would prevail as suppliers are focussed on other matters. This would be a major missed opportunity.

Failure to modify IT Systems

Historically, energy suppliers appear to have hard coded their IT systems to automatically appoint the incumbent DNO as the MAM - for example, EPN for Eastern and LPN for London. This means that an energy supplier who wins an electricity customer from British Gas who uses a CML meter, has no ability to appoint CML (or any other commercial meter operator) as their electricity meter MAM, as a result of their own IT system limitations. Due to the inertia involved in changing these legacy systems, this means that no matter what the economic or contractual drivers of the market or the product offered by the commercial meter operator versus the DNO, the DNO will always be appointed.

This has the effect that where any work is required on a CML meter post the customer churn, and the subsequent appointment of the DNO as the MAM, the following occurs :-

Functionality Change

- The meter is removed; and
- The labour element of the installation is stranded.

Meter Fault

- The meter is removed; and

- The Supplier is charged by the DNO for the work (whereas under the commercial contract CML has in place, CML would be responsible for the cost as we accept fault risk).

This obviously has the effect of ultimately adding to the overall costs of the metering market. Once again this behaviour largely appears to be driven by a lack of priority, acceptance of the status quo, and perhaps a less than full comprehension of the risk and reward trade off in the commercial meter versus regulated meter market.

Risks in Meter Provision

At present new entrants to metering services provision such as CML face more risk than incumbent DNOs. This is because:

- The JPW contract handles risk inappropriately.
- DNOs keep inappropriate risks on the basis of overall recovery through transaction charges resulting from sub-optimal asset management.
- The DNO has a very large base of existing meters
 - This means that it can more easily re-use stranded meters as it can simply reduce new meter purchases
 - The average costs of asset maintenance visits will be lower for a DNO due to the greater asset density that they have.
- In the commercial metering market the service provider supplies the asset and bears the risk of stranded assets. In a freely negotiated commercial agreement this risk would be for the supplier's account as the supplier is best placed, for an optimal price, to manage the stranded asset risk. Otherwise, the meters would be rented at a higher price in recognition of the risk over which the service provider has no control.
- New entrants have to accept normal commercial terms and risks that are not borne by DNOs. CML's experience is that suppliers are not prepared to contract with new entrants using the JPW form of contract.

Disproportionate exposure to these risks makes it harder for new entrants to compete with incumbent DNOs in the electricity metering services market.

All metering service providers should be exposed to similar commercial risks and CML believes that this would encourage the development of a more fluid, commercial market in meter services.

Supplier Integration of Metering Services

Some suppliers have taken steps to integrate metering activities into their businesses. In our view they are doing so in the belief that they can promote their brand and deliver their customer proposition more comprehensively, to reduce their costs or simply because they believe that it will allow them to improve the overall integrity of their processes.

This is a very different situation from that of a separate metering services company. For example, an integrated metering service may have appropriate branding on all its services and this could extend to uniforms for operatives and logos on vehicles. This ability to offer branding by energy supply business is not feasible for a service provider serving several energy suppliers in a region. Such suppliers may also eliminate some of the data flows that are normally sent between separate metering and supply businesses so to improve efficiency and service for customers.

Consequently CML does not consider it likely that such integrated suppliers would wish to offer their services to other energy suppliers nor that they should be compelled to do so as it would dilute the branding, and mean that much of the benefit of their simpler processes could be lost. In addition, if they did choose to offer the service, this could introduce confusion into the minds of consumers and lead to consumers being supplied with energy by one company, but having meter services provided by a competitor of that company!

In any case metering services are already available from more than one source in all areas, and to require such suppliers to make their services available would to some extent negate the reasons for them carrying out the services in-house. In addition, such a requirement would reduce a supplier's ability to differentiate their service and would not fit with the grain of the competitive market.

It would also be impractical to obtain an "arm's length" commercial price from an energy supplier with an in-house metering services business on which a non-discrimination requirement was imposed unless the business was required to be operated as a separate company. This would require transparent transfer pricing. There would be real difficulties assessing the rate of return that should be allowed, to say nothing of the burden of assessing such a supplier's allocation of costs. An integrated business can choose to make its profits in different business areas. Whilst an unrealistic split is unlawful for separate legal entities, there is always some subjectivity in the allocation of central overheads, charges for assets and accommodation, funding of working capital and many other business costs.

In addition, a requirement to offer metering services would increase supplier regulation and runs contrary to Ofgem's current review which is focussed on lighter supplier regulation where appropriate.

Consequently CML does not believe that a non-discrimination obligation should be pursued.

Provider of Last Resort

CML believes the 'services provider of last resort' is no longer required as full national coverage is provided on a regional level by at least one of three other commercial service providers. CML is expecting to continue to offer a metering service on commercial terms in those areas in which it operates.

Conclusions

CML's view of the metering services market can be summarised as:

- The review allows Ofgem to implement the withdrawal of price caps as stated within the previous Ofgem statement in 2004 and in accordance with the original schedule.
- The competitive market is somewhat weak but there are signs that it could develop if the actual costs of metering services were correctly allocated and transparent, and DNOs were required to accept normal commercial risks.
- Legacy IT systems that automatically appoint the incumbent DNO as the MAM are increasing costs and distorting the market.
- The development of competition has been held back by the level of the caps versus risk and by the nature of the JPW metering contracts which misallocate risk. These have:
 - Placed inappropriate risks with the supplier (work-a-day) and the DNO (stranded assets) on a basis that would be unlikely in a negotiated commercial environment;
 - Made it difficult for suppliers to understand their costs,
 - DNOs accept inappropriate risk by over recovering through other charges resulting from sub-optimal asset management.
- Metering services are not a high priority for suppliers. Suppliers are focussed on other "big picture" issues. There is a risk that simply removing the price caps will have no result and won't improve competition unless suppliers and DNOs are motivated to act.
- Ofgem could also stimulate such motivation by expressing strong competition concerns about the JPW contract in a non capped market.
- Whilst it may not be possible to address the gas meter controls at the current time, a protracted delay could have an impact on the market as energy suppliers may delay issuing invitations to tender for services.
- Those suppliers with an in-house metering service are essentially treating the provision of metering services in a different way. It would be inappropriate to impose a non-discrimination obligation on energy suppliers with in-house metering businesses. The service is quite distinct from that offered by separate operators, price discovery would be problematic and since other service providers exist, it would be an unnecessary extension of regulation at a time when Ofgem are reducing supplier regulation.
- A stronger market will encourage innovation.

The metering services market is far from perfect. It is however, healthy enough to respond well to the removal of price caps if combined with a strong signal on the effects of the JPW contract in an uncapped market. This should lead to the renegotiation of metering services contracts and the migration of

risks through normal commercial processes to the parties best able to manage and price them resulting in an overall lower cost to consumers.

CML supports the removal of price caps on the basis that:

- Legacy and new meters are treated in the same way;
- DNOs will face similar asset risks to new entrants;
- Ofgem directs the Energy Suppliers to modify their systems so that they do not automatically appoint DNOs as their default MAM ie their IT systems allow the appointment of commercial operators; and
- Ofgem should signal that the continuation of the uncommercial JPW contract could indicate an abuse of DNOs dominant position in their metering markets.

CML believes that although the removal of the price caps for both new and legacy meters and the rebalancing of the risk back to the meter services company could well lead to the published charges for metering increasing, the **overall** cost of metering services could **fall** as better utilisation of time and assets would result over the longer term.

The removal of price caps is an opportunity to accelerate the development of competition in the metering market and to remove the distortions and privileged position currently enjoyed by the DNOs under their JPW contracts. This would give a boost to competition in metering and might even kick-start the market for more innovative meters.

Appendix 1

Examples of DNO behaviours under the JPW contract that illustrate how the JPW contract is distorting the market for metering services.

Under the JPW contract the DNOs can make more profit by managing their assets in a suboptimal way. For example, CML has heard of cases where the meter operator changes the meter but does not examine the time-switch. Only a short while later that fails and the energy supplier is charged for a subsequent visit to rectify a problem with the time-switch.

There have been instances of DNOs replacing a meter with a short life to go (before certification is required) on a functionality change and then reinstalling the meter (with little life left). Suppliers have “no choice” over the meter being installed. They have to take what they are given. They are subsequently charged within a short period of time for a second visit to replace the out of life meter.

In the above cases a commercial operator would deal with failure or potential failure before it arose through a programme of planned changes for battery life, the renewal of failure prone time-switches at the same time as the meter, (or replacement with a “integrated” meter) and would be unlikely to reuse a short remaining life meter due to their subsequent costs of changing it.

In addition under the JPW contract the DNO can make a transactional charge for remedying an asset failure. In most cases this transactional charge represents the larger part of the DNOs costs of dealing with asset failures. As far as we are aware, new entrants have not been able to negotiate the same position with suppliers and do not receive this transaction charge. In fact CML has had to insure (at its cost) against the full range of asset failure.

The metering services business is basically an asset provision and management business and needs to work in an environment that is compatible with this. The JPW agreements were struck in a different environment and these have entrenched behaviours that are quite contrary to those that would be exhibited by a commercial asset provision and management business. There is a danger that anything other than an open and freely commercial approach will prolong these undesirable behaviours.

Appendix 2

Answers to Ofgem's Questions

CML's responses to the specific questions in the consultation document are tabulated below.

Chapter and Question No:	Question	Response
2: 1.	Is it necessary to review the price controls on gas meters prior to conclusion of the Competition Act investigation?	<p>If the investigation proceeds so that a price review can be finalised relatively quickly, there is no need to review prices now.</p> <p>If the investigation cannot be finalised relatively quickly then some action is needed on gas price controls or suppliers are likely to delay tendering for services. Ofgem may choose to specifically canvass suppliers on this issue.</p> <p>However in reaching the decision on electricity meter price controls, there is a need to be mindful of gas and to seek a solution that works for both fuels.</p>
2: 2.	Is it necessary to reset the level of the cap on gas PPM meters prior to conclusion of the investigation?	<p>CML believes the prepayment and credit caps should be rebalanced as soon as possible. The current position where most suppliers pay an unrealistically low charge is distorting competition in the provision of prepayment meters and stifling innovation in this area. Higher prepayment charges would also encourage suppliers to seek alternatives to prepayment meters for debt management. CML acknowledges the strength of the lobby against higher charges but does not support the continuation of the current cross subsidy.</p>

Chapter and Question No:	Question	Response
4: 1.	Have we identified the key characteristics and dynamics of the electricity metering market?	<p>CML believes that there are additional issues.</p> <p>Suppliers have bigger issues to deal with and their lack of focus on metering together with the non transparent nature of the JPW contract charging regime has resulted in an overly favourable position for DNOs.</p> <p>Failure of energy suppliers to modify their IT systems away from the default appointment of the DNO has significantly retarded the commercial meter market.</p> <p>The market is regional and not truly national.</p> <p>The price caps are too low reflecting the fact that the DNOs have non-commercial contract terms taken from the JPW contracts drawn up when competition started.</p> <p>The risks are skewed in the JPW contract and inappropriately allocated.</p> <p>The DNO's JPW service is of a different character to a competitive service.</p> <p>There are many unregulated charges that result from equipment or process failure that should properly be for the DNO's account rather than the supplier's.</p> <p>The nature of the asset bases on incumbent DNOs and new entrants are fundamentally different.</p> <p>These factors all give rise to a different risk- reward balance. CML believes that all suppliers should face the same basic risks</p>
4: 2.	Have we identified the key developments in the electricity metering market over recent years?	Yes but against an incomplete view of the market. See question 4:1 above

Chapter and Question No:	Question	Response
4: 3.	Have we identified the factors which determine whether suppliers use the market to meet their electricity metering needs?	CML believes the consultation paper omits some important factors such as the form of the JPW contracts and the character of metering innovation by suppliers. It is somewhat optimistic about the effectiveness of competition at present.
4: 4	Have we made a fair assessment of the prospects for further development of the electricity metering market	<p>Currently the conditions are not right due to a combination of price and risk.</p> <p>There should be a free market with equality of risk exposure, removing the protection and distortions introduced by the JPW contracts.</p> <p>Suppliers who have an integral metering business are treating the market differently and should be allowed to continue to do so.</p>
5: 1.	Should the electricity meter price caps be allowed to fall away on 31 March 2007 in respect of meter operations and the provision of new and replacement meters?	Yes, although there needs to be risk-based pricing by the dominant meter services suppliers. This should be linked to the acceptance by DNOs of the same risks as new entrants face.

Chapter and Question No:	Question	Response
5: 2.	Should the price controls on legacy electricity meters be maintained at least until 2010?	<p>No. They should be removed as they will continue to distort the market and inhibit metering innovation by exacerbating the stranded asset risk.</p> <p>Ofgem should signal that the maintenance of prices under the JPW contract is not appropriate once the price controls have been removed and that it may raise competition concerns.</p> <p>Continuation of these contracts may encourage new entrants to abandon the market.</p>
5: 3.	Are the concerns over potential issues for small and/or out of area electricity suppliers valid?	<p>Yes, the concerns are valid. CML will continue to work with small suppliers. Independent meter operators are a critical component of the new market. The Competition Act provisions will help to protect independent meter operators and small energy supply companies, although proactive monitoring to prevent abuse by DNO's through market dominance may be needed.</p>
5: 4	If so, would a non-discrimination obligation on suppliers be an appropriate response to these concerns?	<p>No. It would probably not be relevant as alternative service providers exist and it would be very difficult to monitor pricing.</p> <p>We are against extending regulation when market forces can still provide a solution.</p>



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Date 11th August 2006

Dear Rachel,

Metering Price Control Review 108/06

I am pleased to enclose Capital Meters' response to your consultation paper on Metering Price Control Review 108/06

We believe that this is a very important process to ensure the continued deregulation of the market and we would welcome the opportunity to continue to be engaged in the process to decide on the best way forward.

Please do not hesitate to contact me if there is anything in our responses which you would like to discuss.

Yours sincerely,

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