



Our ref.

Your ref.

Date: 9 August 2006

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Dear Rachel,

Consultation Response – Metering Price Control Review

I am writing on behalf of CE Electric UK Funding Company (CE), which is the UK parent company of Northern Electric Distribution Ltd (NEDL) and Yorkshire Electricity Distribution plc (YEDL).

Thank you for the opportunity to put forward our views on Ofgem's proposal to lift the current price controls on the provision of new and replacement electricity meters and electricity meter operation from 1 April 2007 and to retain the price controls on the rental charges for existing electricity meters.

We have set out the CE Electric UK view of the specific questions raised in your consultation document in the appendix to this letter, but in general CE Electric UK is supportive of Ofgem's proposals to:

- i.) remove the price controls on basic electricity meter operation from 1 April 2007;
- ii.) allow the licence obligation to provide basic electricity meter operation to lapse on and after 1 April 2007;
- iii.) remove the price controls on the provision of new and replacement electricity meters from 1 April 2007;
- iv.) allow the licence obligation to provide the service of basic electricity meter asset provision to lapse on and after 1 April 2007; and
- v.) retain the controls on the rental charges for the legacy meters of the incumbent DNO and review these controls at the end of their five-year term in 2010.

It is our view that the competitive markets for the provision of new and replacement electricity meter assets and electricity meter operation services are developing well and there is no longer the need for the price controls and licence obligations that have been used to date to regulate the market for these services. We also feel that any removal of price controls must go hand in hand with the termination of licence obligations to provide the same services, to ensure that a free and competitive market for these services is able to continue to develop.

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If this proposal is agreed as the way forward, it is essential that all licence definitions are checked to ensure that incumbent DNOs who choose to continue to provide MAP and MOP services on and after 1 April 2007 are able to do so freely and with any income so earned treated as excluded income.

I trust that our views and observations are useful and we look forward to receiving the outcome from your consultation.

Yours sincerely

Lynne Hargrave
Network Sales
CE Electric UK

APPENDIX

In answer to the specific questions you raise in your consultation document:

Chapter 4

Q1: Have we identified the key characteristics and dynamics of the electricity metering market?

Yes; overall you have done this.

When considering the accelerated replacement of installed meters there appears to be a significant difference in treatment by suppliers of prepayment and credit meters which is not clearly identified in your review. Prepayment meters require more customer service visits to the meter than a credit meter. These visits are needed to change tariffs, change debt recovery rates, add emergency credit and investigate faulty and damaged meters. The volume of customer service visits and hence the cost to serve can be significantly reduced by changing to a modern prepayment device capable of two-way communications. Suppliers can see an immediate benefit in the removal of old token meters and appear to be actively investigating accelerated replacement programmes. Accelerated replacement could potentially lead to asset stranding and this issue needs to be considered by Ofgem, meter asset providers and suppliers alike.

Q2: Have we identified the key developments in the electricity metering market over recent years?

Yes. It appears that, although many suppliers have tendered to change meter provision and meter operation arrangements, only one has actually put new arrangements in place. Other suppliers are now considering how to move forward and we believe that more than one supplier is currently considering accelerated meter replacement.

Q3: Have we identified the factors which determine whether suppliers use the competitive market to meet their electricity metering needs?

Provided the market has the mechanisms for any supplier to choose its meter asset and meter operation providers, the key factors determining whether suppliers use the competitive market will be price and service level improvements over existing providers.

Q4: Have we made a fair assessment of the prospects for further development of the electricity metering market?

Yes.

Chapter 5

Q1: Should the electricity metering price caps be allowed to fall away on 31 March 2007 in respect of meter operation and the provision of new and replacement meters?

Yes.

The beginnings of a competitive market are already established in each of these areas. British Gas have already sourced meter operations and new & replacement meters from new providers rather than incumbent DNOs. Most of the other major suppliers have also placed tenders to change providers of these services. Although no other supplier has yet reached the contract stage, it is realistic to expect that changes in providers will occur in response to these tenders.

The majority of consumers in England and Wales are now in a position where their supplier has investigated, or is investigating, how the new market in meter operation and new & replacement meters can best deliver the level of customer service and cost required by each supplier. The means to deliver changes in service providers are already in place, as demonstrated by British Gas. As such these price controls are no longer necessary to protect consumers.

Q2: Should the price controls on legacy electricity meters be maintained at least until 2010?

At this point in time it is possible that a case could be made for the removal of price controls on legacy meters. However, we are happy for these price controls to remain in place at the current time. This position should be reviewed by Ofgem prior to 2010 if there is evidence that there have been further changes in the development of this sector as a competitive market.

Q3: Are the concerns over potential issues for small and/or out of area electricity suppliers valid?

We agree that it may be difficult for small suppliers to provide metering services at a price which will allow them to compete effectively with larger suppliers. It may also be difficult for these smaller suppliers to competitively source other essential services such as a prepayment meter infrastructure.

Q4: If so, would a non-discrimination obligation on suppliers be an appropriate response to these concerns?

A non-discrimination obligation on suppliers should be able to address some of the issues faced by these smaller suppliers.