

Rachel Fletcher  
Head of Retail Markets  
Ofgem  
9 Millbank  
London  
SW1P 3GE

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Dear Rachel

## **Metering Price Control Review**

energywatch welcomes the opportunity to respond to the issues raised by this consultation. This response is non-confidential and we are happy for it to be published on the Ofgem website.

### **Introduction of metering competition**

We note and agree with Ofgem that, if appropriately introduced, competition in metering asset provision and metering services should have the effect of reducing costs, improving services to consumers in the long term, and providing an impetus to asset and service providers to develop and market innovative and improved products for the benefit of consumers.

However, we believe that the current level of competition in metering in both the electricity and gas markets, despite being initiated in 2000, is far removed from exhibiting the characteristics of open markets along the lines described above. We note that there is currently a Competition Act investigation relating to National Grid's actions regarding metering services in the gas market. Ofgem also highlights a further investigation into allegedly anti-competitive practices by EdF. This indicates that, to use Ofgem's own terminology, we remain in a **transitional** phase only towards full, open and effective competition in metering.

### **Specific comments**

Ofgem has highlighted that it does not intend to review gas metering price controls while the Competition Act investigation into National Grid is live. We **agree** with this view and we would urge Ofgem to postpone consideration of these price controls indefinitely until the picture on metering competition in the gas market becomes much clearer and market participants can comment on an informed basis. However, we note that National Grid's position as the dominant incumbent would tend to suggest that the transitional period towards open and effective competition in gas metering services may be quite lengthy, subject to any possible outcome of the current investigation.

We note National Grid's request that the price cap on gas pre-payment meters (PPMs) ought to be reviewed with a view to raising the price of these meters, based on its view of cost to serve. At a time of significant detriment for all energy consumers, but in particular the most vulnerable, as energy prices continually rise, it is totally unacceptable to place gas PPM consumers in further financial distress. The removal or raising of the price cap would have such an effect. Ofgem is well aware of the current situation with energy prices. It is also aware that low income consumers are being disproportionately impacted by price rises and that a significant proportion of low income consumers use gas PPMs. In these circumstances, we are completely opposed to National Grid's argument. The removal or raising of the price cap would aggravate an increasingly difficult financial situation, be a highly regressive measure, and reverse further any limited reductions which had been made in fuel poverty in previous years.

Ofgem has recently considered options for recovery of debt incurred through gas PPMs at previous premises through electricity PPMs at consumers' new premises. The very fact that this is being considered highlights that the cost of gas PPMs is already significantly higher in comparison to electricity equivalents and would go up further if the price cap were to be removed. Given the financial pressures on consumers using PPMs, this would be a further unwelcome burden.

As far as the price controls applicable to electricity domestic meters are concerned, while we are supportive of the development of competition in this market and are pleased to see that there is some activity in terms of 'shopping around' by suppliers for better or cheaper services, Ofgem itself notes that there is "*potential for increased competition*" (our emphasis). The current level of competition stands at around 20%, with the operation of price controls. Ofgem recognises that there are a significant number of legacy meters in existence which will either require voluntary replacement by suppliers and/or consumers, or sale by incumbent providers/operators to stimulate competition further. It is unrealistic to assume that the 'churn' of these legacy meters will increase substantively in the short term and provide a 'step change' in the level of competition currently being observed. Indeed, Ofgem notes that rental charges for legacy meters would rise in the short term if not constrained by price controls.

We do not believe, on the basis of the evidence Ofgem has presented, that the competitive market in domestic electricity metering services has developed sufficiently to remove any of the price controls after only two years. We consider that price controls remain relevant and particularly so for domestic electricity PPM consumers who are in no better a position than gas PPM consumers in terms of the impact of high energy prices as noted above. We do not believe that controls on rental charges should be removed. We do not believe that the price controls are so huge a barrier to entry currently that further competition or innovation will be stifled by their retention in their current form. The development of competition, particularly in formerly regulated monopoly markets where the 'legacy' factor for the product or service on offer is significant, takes longer than normal. In these circumstances, we do not see how price controls for any meters, legacy or new/replacement, can be removed. It would be more appropriate for Ofgem to take

a flexible approach and agree to extend, and then review, all the electricity metering price controls in 2010 instead of purely the rental charges element of those controls.

We agree that the Energy Services Directive has a significant role to play in further developing competition and innovation in the energy metering services markets. Implementation of the Directive may take some time and it would be hasty to remove price controls in anticipation of potential benefits when the full implications of implementation are not fully understood or are not entirely clear.

We believe that Ofgem should take a flexible approach, as noted above, regarding the potential impact of the implementation of the Directive. As some competition and innovation has already occurred while price controls remain in existence, we see no reason at this point why the controls should be removed in anticipation of unknown future benefits. If there is increasing certainty about the likely outcome of the implementation of the Directive which allows Ofgem to review the electricity price controls earlier than 2010, we would support an earlier review.

We have been very supportive of the introduction of smart meters as a means by which to place the consumer in a position of power and responsibility over their levels of consumption. We believe that consumers can obtain multiple benefits from the extensive roll-out of smart meters, including a more responsible approach to, and greater awareness of, their energy usage, improvements to energy efficiency, and timely and accurate billing by their suppliers. We believe that innovation in metering is a long game and not at odds with the retention of price controls for the short term. Smart meter providers will not be considering short-term gains in developing their products and services but looking at a longer timespan for returns. There will be scope for these providers to create competitive advantages over time. Therefore, we do not consider that removing price controls now will create immediate short-term benefits for consumers or for smart meter providers unless there is significant impetus through legislation for roll-out in a very short period of time.

Going forward, we will continue to keep these issues under review as and when they are raised, always considering the possible impact on consumers.

We would appreciate being kept informed of the progress of the consultation and any related issues to enable us to comment as the need arises.

If you do wish to discuss our response further please do not hesitate to contact me on 0191 2212072.

Yours sincerely

Carole Pitkeathley  
Head of Regulatory Affairs

