



ScottishPower

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Dear Rachel

METERING PRICE CONTROL REVIEW

ScottishPower welcomes the opportunity to respond to Ofgem's consultation on the existing price controls on domestic gas and electricity metering.

We believe that a rigorous and transparent assessment of metering competition is essential at this time in order to give Ofgem sufficient evidence upon which to base its decision over the maintenance or removal of the existing metering price controls, and consequently fulfill its statutory duties with respect to the protection of customers and the promotion of competition where appropriate. However, we do not believe that the proposals outlined in the Metering Price Control Review will deliver a robust assessment of the metering market and we are concerned that without this Ofgem will prematurely remove regulatory controls and thereby impose competition into a market where a commercial offering can only be obtained at a significantly higher cost and with no evidence of improved service to suppliers and consequently customers. This risk combined with the continued uncertainty surrounding the ongoing Competition Act investigations and the future implementation of the Energy Services Directive would suggest that it is essential that Ofgem conduct a more thorough evaluation of the metering market at this time.

Competition Act Investigations

We believe that Ofgem cannot effectively consider either the gas or electricity metering price controls until they conclude both the National Grid and EDF Energy Competition Act investigations. Suppliers will typically aim to enter into commercial meter provision and operation arrangements on a dual fuel basis and therefore it is essential that clarity is obtained with respect to both investigations before any action is taken on the existing price control arrangements. In addition, commercial metering businesses need to fully understand the potential impacts of the on-going investigations before they can reasonably consider entering into new service agreements. It is essential that Ofgem recognise the importance of the ongoing Competition Act investigations on the metering market as a

whole and accept the potential for both direct and indirect consequences and interactions between the gas and electricity sectors in this respect.

Gas Pre-payment Metering (PPM)

We do not believe that Ofgem can review the price cap on gas PPM's prior to the conclusion of the National Grid investigation and are not currently aware of any imminent requirement to do so. National Grid has said for some time that current prices for PPMs do not cover the cost for providing such meters. In addition, Ofgem have previously stated that the existing price differential between credit and prepayment meters would continue until there was effective choice available in PPM systems. We do not believe that metering competition in the gas market has sufficiently developed to provide this choice and consequently do not support a review at this time.

Electricity Metering Price Controls

As stated above we do not believe that Ofgem can effectively consider the electricity metering price control until they have concluded the EDF investigation as the outcome from this could have a direct impact on those suppliers with associated metering businesses where there is limited commercial service provision as EDF has found with data retrieval service provision in the London area. We have also found variations in the number of service offering available in certain geographical areas with a number of areas where only one or two commercial offers are available. While suppliers will naturally aim to reduce costs by maximising the scale and coverage of commercial contracts the geographical limitations of the current market structure will mean that such economies will typically create one or two preferred service providers operating nationally with a resultant "one size fits all" service and possible erosion of service quality. Therefore, we do not believe that artificially promoting competition by removing the regulated controls at this time will result in either a significant advancement of the current competitive market or indeed an improved service offering particularly if suppliers are restricted in the number and coverage of available competitive alternatives.

Ofgem have previously commented - *Domestic Metering Innovation - Next Steps* - that the track record of the network companies in offering cost-effective, good quality metering services and in choosing reliable metering technologies has been mixed at best. Indeed this was one of the main reasons for introducing metering competition. We do not have evidence to support this assertion and consequently do not accept that this is an accurate reflection of the current regulated service offerings available to suppliers. However, if Ofgem have concerns over this issue then the nature of the regulated market should enable sufficient benchmarking against comparators to deliver the necessary service improvements.

Asset Stranding

As Ofgem have recognised asset stranding is not a new or indeed unique issue to the metering market. Churn contracts are obviously one method of mitigating the risk arising from this issue but clearly such measures increase the cost and complexity of the market and while they may remove a barrier to competition customers will ultimately bear the cost of such measures through higher prices.

Competitive Market Review

We believe that Ofgem should define a basket of measures to confirm whether metering competition has been established before considering whether it is appropriate to remove either of the metering price controls. This basket of measures should include amongst other things an assessment of the number of contracts currently let, an analysis of service levels provided and also numbers of service failures. This method of assessment was successfully used in assessing competition before lifting the supply price controls and a similar test should be applied to the metering market. It is wholly insufficient to make an assessment of competition on the basis that a number of suppliers have launched competitive tenders for metering services when in reality only one supplier has actually awarded a contract for third party electricity metering services.

Clearly Ofgem require to make a full and rigorous assessment of the state of competition in the metering market. Conducting a confidential assessment whereby suppliers who have gone to tender could divulge the prices they have received from commercial providers could effectively deliver this assessment. This information could then be used to quantify whether competition is effectively delivering commercial prices that will offer the best protection for customers' interests when compared to the current regulated market.

However, we believe that such a review will demonstrate that the charges for commercial electricity offerings have far exceeded those for regulated Distribution Network Operator (DNO) services even allowing for any increase in service levels that the competitive market may deliver. We believe that the requirement for commercial service providers to build bespoke systems and achieve asset funding for each venture, in addition to a reasonable risk premium is substantially increasing prices when compared to a regulated rate of return service proposition from the DNOs.

Non-discrimination Obligation (NDO)

We do not believe that a NDO on suppliers is a necessary or proportionate response to a potential concern that is already more than adequately accounted for under general competition law, which applies equally to all suppliers with or without in-house metering businesses. To introduce a NDO only on those suppliers with in-house metering businesses - in effect excluding BGT - would create an additional and unnecessary regulatory burden with the associated costs and risks associated with a new licence obligation. An additional regulatory intervention of this nature would create an unjustified imbalance in the regulatory framework and is not conducive to development of an open and effective competitive market for metering services.

Please do not hesitate to contact me if you require any further information or would find it useful to discuss any of the above.

Yours sincerely

STEPHANIE TOBYN