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Our ref

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Date

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Dear Ms Fletcher

REMOVAL OF THE NHH BASIC METERING SERVICES PRICE CONTROL AND OBLIGATIONS

I am responding on behalf of Western Power Distribution (South Wales) plc and Western Power Distribution (South West) plc to the proposed removal of the NHH basic metering services price control and obligations.

Since the issue of Ofgem's consultation, Scottish & Southern Energy (SSE) have notified WPD of their intention to bringing all metering activities in house from 2007. This accounts for most of WPD's meter operation activity in South Wales and some in the South West. Together with the impact of the British Gas decision to competitively tender for meter operation activities, this means that WPD will experience a significant loss of market share in meter operations in South Wales and South West England.

WPD's views are also informed by the recent conclusions of the DTI Energy Review. We also await the forthcoming DEFRA consultation on the implementation of the Energy End Use and Energy Services Directive.

In summary WPD supports Ofgem's proposals for the removal of price controls and obligations for meter operation and renew/replacement meter provision and the retention of price controls and obligations for legacy meter provision with a review during the forthcoming DPCR.



The Electricity Metering Market

Level of Competition – WPD has experienced competitive activity in the NHH metering services market as follows:

- Scottish & Southern Energy (SSE) have notified us that they are bringing all metering activities under in-house control. SSE are the largest supplier in South Wales. WPD South Wales metering staff will be transferring to SSE employment under TUPE arrangements.
- We note that other major energy suppliers are also considering providing and operating meters in-house for customers living outside their affiliated DNO area.
- The British Gas appointment via competitive tender of three non-DNO metering service providers in relation to gas and electricity meters. This accounts for 20% of the metering services market.
- In the last 2 years we have been approached by the major suppliers asking us to tender for dual fuel NHH meter provision and operation work. This tender activity was suspended during the early stages due to the regulatory uncertainty arising from the Ofgem investigations into the gas MOP market and the electricity meter reading market. With the conclusion of the current Ofgem competition investigations we are expecting to see renewed tendering activity.
- We are also experiencing a reduction in business activity as NHH commercial customers opt to install AMR smart metering and migrate across to the competitive HH market.

Market Characteristics - We agree that economies of scale and the risk of stranded assets are key characteristics of the NHH electricity metering market.

(a) **Economies of Scale** – in our experience, providing affordable metering services in any geographical area depends on volume and economies of scale. It is uneconomic to provide services to a low volume of customers. A service provider needs to secure a contract with a large supplier in order to offer an economically priced service to smaller suppliers. As SSE terminated our meter operator contract in South Wales, our ability to compete for metering services to the other suppliers will be significantly reduced.

(b) **Stranded assets** - although suppliers are able to mitigate the future risk of stranding of meters due to technological change in a competitive market, the DNOs had a regulatory obligation to provide meters and have been unable to mitigate this historic risk, even to the extent that Ofgem ruled out termination charges. We note that both Ofgem and the DTI reject the wholesale or mandatory adoption of smart metering. However an increased focus on smart metering would increase the level of risk on DNOs of stranded assets due to the adoption of new technology. **DNOs must be allowed to recover any stranded costs incurred.**



Recommendations for Electricity Metering Price Controls

Question 1 - Controls on basic MOP and Future basic MAP – These obligations and price controls were intended to be an interim measure and we agree that they are not appropriate now that competition in new/replacement meter provision and meter operation is developing rapidly.

Assuming that both Ofgem Competition Investigations have been completed and the associated regulatory uncertainty removed, WPD believes that by April 2007 there will be sufficient competitive (tendering) activity within the UK NHH metering market to ensure that the removal of the service obligation and price controls for basic meter operation and the provision of new and replacement basic meters would not be detrimental to the interests of electricity customers. Customers would also be protected by the requirements of the Competition Act prohibiting an abuse of dominant position.

Within the South Wales area, WPD will no longer have the majority market share. Therefore all obligations and price controls should be lifted in any case.

Question 2 - MAP price control on legacy meters – With “household” energy and environmental issues moving up the political and media agenda, we expect to see increasing political and consumer demand for energy saving technology. The suppliers drive to bring metering activities under in-house control could stimulate the premature replacement of metering assets with smarter technology. Both Ofgem and the Government favour the provision of energy services packages by suppliers and the removal of barriers to this new market. The DTI Energy Review supports a 5 year roll-out of domestic consumer display units, with further trialling of smart meters. The forthcoming DEFRA consultation on the implementation of the Energy End Use and Energy Services Directive will provide guidance on the timescale for the installation of new technology.

In view of this policy framework, we believe that it is appropriate to retain the MAP price control and obligations on legacy meters until 2010 and review the position again during the forthcoming Distribution Price Control.

If government or regulatory policy should require or incentivise energy suppliers to provide customers with smart meters, DNOs would need to be compensated for the premature replacement of legacy meters. We also note that Ofgem will revisit the metering price control should the government interpretation of the Energy Services Directive require the mandatory or widespread introduction of smart metering by suppliers prior to 2010.

Question 3 - Impact on small suppliers - in our experience, providing an affordable, high quality MOP service in any geographical area depends on volume and economies of scale. If the larger suppliers chose to provide this service in-house, this would reduce the ability of DNOs independent providers to offer an economic high quality service. Lack of access to economic metering services is a significant barrier to entry for an energy supplier.



However pending the results of the Ofgem inquiry into the conduct of EDF in withdrawing meter reading services, it may be that the competition Act provides sufficient protection against this problem by requiring any dominant suppliers to provide metering services on a non-discriminatory basis.

Question 4 – Non-discrimination requirement on suppliers. A non-discrimination requirement in the supply licence does not seem appropriate in a competitive market, as protection should be provided by the Competition Act. We have already responded to Ofgem's investigation of EDF metering reading services and expect the conclusions to inform this issue.

Yours sincerely



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Regulatory & Government Affairs Manager

