



POLYMETERS RESPONSE INTERNATIONAL LIMITED
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09/11/2006

Duncan Mills
Regulatory Economist, Retail Competition
Ofgem
9 Millbank
London
SW1P 3GE

Dear Mr Mills

PRI Ltd response to Ofgem Consultation - Treatment of the early replacement of prepayment meters in the electricity metering price controls.

Please find below PRI Ltd's consideration of the consultation document referenced above.

1. Introduction – PRI welcomes this consultation as the current provisions do not adequately reflect the current and near future commercial reality of the Prepayment Market and the "Smart Metering" debate.

Specifically the new proposals fall short of resolving the situation adequately in two significant areas: -

- a. The new proposals (Introduction para 1.2) must be expanded to include all current Prepayment technologies as mentioned, widely in use in Great Britain. These technologies are by and large more than 10 – 15 years old and in technology terms should be classed as "legacy". We specifically include Key and Smart Card meters in this category even though they are substantially better in performance than "Mag Card" token meters – they are still "token" meters and suffer many of the same inherent cost and performance issues. Gas Smart Card prepayment in particular offers very poor value compared with modern tokenless technology.
- b. The second issue relates to the recovery of the stranded cost and the amount split between customers and DNO's. It is our opinion that if the first point is dealt with as suggested above then the benefits to the customer will far outweigh the total stranded cost caused by the early replacement of legacy PPM's. Whilst some new technology meters will bring some benefit to the DNO's this benefit is dwarfed by that shared by Suppliers and Consumers. Therefore if the entire stranded asset cost were collected by "all customers" the proportion due from the PPM customers in a competitive market would actually be absorbed by the supplier from their cost to serve benefits.



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We agree that the stranded cost should be smeared across all customers so that the fuel poor do not pick up the increased costs alone and agree that these costs so smeared would be very small. Our suggestion in point two above goes further than Ofgems proposal by eliminating the cost completely from PPM users as their contribution should be absorbed by the supplier benefits.

2. Key issues Relating to the Current PPM Adjustment Mechanism

Question 1 – Have we made an accurate assessment of the problems with the current electricity PPM asset life adjustment mechanism?

No – the stated position that only Token meters are poor value is out of date and needs to be reviewed. The fact that newer lower cost to serve prepayment technologies exist has been overshadowed by the reluctance to invest in such technologies – ironically, due to the stranded asset issue itself.

Therefore all current prepayment technologies should be included in any new price control arrangement (viz. para 2.7 and 2.12)

We agree that there is no reason to differentiate in the treatment of single and multi-rate PPM meters with respect to stranding costs although actual stranding costs may differ.

3. Proposed Approach

Question 1: Do the problems with the current electricity PPM asset life adjustment mechanism justify replacing it with an alternative mechanism?

Not necessarily if its replacement reduces the opportunity to advance technical and commercial benefits through energy management, convenience and lower cost to serve than the existing mechanism which does not discriminate between PPM technologies. Further we worry that there is a significant bias toward the electricity PPM market when the Gas PPM market is in far worse shape and in dire need of overhaul.

Question 2 ; If so do you agree with the alternative we have proposed?

- We agree that the stranded costs should be smeared across all price controlled meters in both Electricity and Gas markets.
- We do not agree that Smart Card and Key Meters should be removed from stranding protection as these are old technologies that do not easily fit within the Smart Metering debate the "ESCo" Directive and other parallel instruments under current consideration by Government and a decision in isolation may undermine these activities.
- We agree that two/multi-rate meters should be treated in the same way as single rate PPM's



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- We do not agree with the proposed split between DNO's and consumers. The largest share of the benefits of early replacement will be with the supplier/consumer and therefore the stranded cost should be borne by the consumer. Suppliers deploying new technology will naturally use the lower cost to serve benefits to discount the burden on PPM customers making it cost neutral to those that can least afford to pay.

PRI would be happy to discuss any of the above views with Ofgem and any other interested party, any requests for further information should be directed to richard.stclair@pri.co.uk.

Yours sincerely
On behalf of PRI Ltd



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