Early replacement of electricity PPMs and removal of electricity metering obligations: Proposed licence amendments.

Ofgem Consultation 29/07

Response of Siemens Energy Services

Declaration of Interest:

Siemens Energy Services (SES) is a competitive provider of a wide range of metering services to the utilities industry covering Asset Provision, Asset Maintenance (Meter Work) and Asset Management, Data Retrieval, Data Processing and Data Aggregation, Prepay, Revenue Protection and Debt Recovery. SES is wholly owned by Siemens PLC.

We write in accordance with your invitation in the summary section of your Consultation 29/07 for "additional feedback from DNOs and others on these guidelines".

Siemens Energy Services is particularly concerned about the apparent sudden change of policy on the lifting of the obligation on DNOs to provide metering services. More specifically, we had been in favour of Ofgem's previously-indicated thinking[1], that if DNOs chose to offer new services then they should do so from a new subsidiary. We have seen Ofgem's position gradually weaken from the offer of a nine-month delay, through longer delays to a possible complete retraction of the proposed policy.

Furthermore, we feel that Ofgem continues to extend favourable protectionist privileges to the incumbent regulated service providers to the serious detriment of independent competition.

The logic of the situation is as follows:

If the provision of metering services was an onerous obligation, then the DNOs should be pleased to be relieved of it, especially since their legacy position is protected – a privilege which no other party enjoys.

- If DNOs act independently of Suppliers, then they should not be involved in the decision process whereby Suppliers may opt to procure services elsewhere.

- If the largest meter-provider in the country (Transco in 2002) could set up a successful independent subsidiary without prior notice in nine months under competitive pressure, then the DNOs ought to be able to do the same thing having had considerably more notice. In fact the vertically-integrated utilities have invested in the exact opposite direction by closing the easily-separable Limited Companies which used to offer metering services, and re-configuring them as "divisions" which are owned neither by Distribution nor Supply.

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[1] See for example Ofgem open letter of 23rd January 2007, page 1 para 2

The arguments which have been raised against change imply that (a) the provision of metering services in a protected environment is highly profitable, (b) DNOs in vertically-integrated groups operate synergistically with sister Suppliers through "metering divisions" and (c) Utilities which owned metering services divisions *could* have set up the necessary independent subsidiaries, but they actively chose the opposite course.

SES has the following additional detailed comments to add:

Re Summarv para 2. Ofgem observes that *unlike the situation in gas* the existence of PPM infrastructure costs reduces the ability of a DNO to mitigate risk, and concludes that "additional stranding protection" was warranted. Why does Ofgem propose to actively distort the market by conferring such protection preferentially upon DNOs and not on free-market operators?

Re Summarv para 7. Ofgem notes that removing metering services from the definition of a "distribution business" would have the consequence of requiring separate subsidiaries to carry out new metering business. Has Ofgem evaluated how many utilities have actually *closed* separate metering subsidiaries at the exact time at which it was proposed these subsidiaries might be needed in order to facilitate fair competition?

Re para 1.12 SES is concerned about Ofgem's threatened change of policy on separation of metering interests. The objections to separation given by some DNOs send a clear signal that they are concerned about a fall in revenue should they be exposed to fair competition. How can protecting artificially high prices from dominant local monopolies be in the best interests of consumers?

Re para 2.1 Ofgem does not appear to attach any significance to the fact that the PPMs which are most vulnerable to stranding were considerably cheaper to purchase than those which are versatile enough to stand the test of time. The owner/operators of low-cost/low functionality hardware have already enjoyed the benefits of this over a number of years. The high cost of re-programming to recover rising energy prices was a risk which they knowingly accepted throughout the period of low capital investment and falling energy prices.

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Siemens Energy Services