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value for all customers*

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Date: 24 April 2008

Dear Sir/Madam,

### **Review of Competitive Metering – Deferral**

In Ofgem's October 2006 decision document<sup>1</sup>, we stated that we would carry out a review of competitive metering within 18 months of the removal of the obligations and price controls on electricity metering. These controls lapsed on 31 March 2007, so according to this timetable, the review would need to be completed before the end of September 2008.

We have now decided to defer the review in light of current uncertainties in the metering market, which mean it is difficult to undertake a robust assessment of metering competition at this time. This letter sets out the background to the review and explains why we have made the decision to defer.

#### *Background*

On 29 September 2006, Ofgem decided to allow the obligations and price controls on electricity meter operation services (MOp) and the provision of new/replacement electricity meters (MAP) to lapse in line with sunset provisions set out in the distribution licence. The sunset clauses took effect on 31 March 2007, and since that time distribution network operators (DNOs) have no longer been obliged to offer either MOp or new/replacement MAP services. DNOs do however continue to have obligations to provide meters installed prior to 31 March 2007 (legacy MAP) under price control.

Gas distribution network operators (GDNOs) continue to have obligations to provide both MAP and MOp<sup>2</sup> services to domestic customers under price control. In our October 2006 decision document, we stated that we would retain the current gas metering controls and review them following the conclusion of the Competition Act investigation into National Grid's (NG's) Meter Services Agreements (MSAs).

The decision document also signalled our intention to carry out a review of competitive metering within 18 months of the removal of the electricity metering price controls. We stated in the document that while the scope of the review was not yet finalised, it was likely to focus on how competition in electricity metering was developing and responding following removal of the price controls, including issues such as any unforeseen impacts on

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<sup>1</sup> Ofgem's Decision on the Future of the Gas and Electricity Metering Price Controls, 13 October 2006, Ref 187/06. [http://www.ofgem.gov.uk/Markets/RetMkts/Metrng/Metering/Documents1/15725-187\\_06.pdf](http://www.ofgem.gov.uk/Markets/RetMkts/Metrng/Metering/Documents1/15725-187_06.pdf)

<sup>2</sup> In gas metering, MOp services are generally referred to as MAM (Meter Asset Management) services.

vulnerable customers, and the behaviour of incumbent suppliers with in-house metering businesses in the deregulated market.

### *Current Uncertainties in Metering*

There are currently important uncertainties in metering, in particular due to the Government's consultation on smart metering policy and also the Authority's recent infringement decision against NG for abusing a dominant position in the market for the provision and maintenance of domestic-sized gas meters through the MSAs<sup>3</sup>.

In the 2007 Energy White Paper, the Government set out its vision of having smart meters installed for all gas and electricity customers over the next ten years. In August 2007, BERR published the Energy Metering & Billing consultation that put forward different possible options for rolling out smart meters. The outcome of this consultation will affect the way electricity and gas smart meters will be deployed and therefore may have important implications for the structure of the market going forward.

The Authority's infringement decision against NG under the Competition Act marks an important step in resolving uncertainty in the gas metering market and allowing metering competition to move forward. NG has however appealed the decision to the Competition Appeal Tribunal (CAT), and the final outcome may be uncertain for some time. It is also likely that the market will take some time to adjust and respond to the conclusion of the case, which makes it difficult to undertake a robust assessment of metering competition at this time.

### *Next Steps*

In light of the uncertainties outlined above, we believe it is not appropriate to carry out our proposed review of metering competition this time. Instead, we intend to allow some time for the market to react to the Competition Act decision and for Government's consultation on smart metering to be concluded. We will reassess the case for beginning the review later in 2008 in light of market and policy developments.

If you have any comments or concerns regarding our decision to defer the competitive metering review, please do not hesitate to contact either Duncan Mills ([duncan.mills@ofgem.gov.uk](mailto:duncan.mills@ofgem.gov.uk)) or Emma Kelso ([emma.kelso@ofgem.gov.uk](mailto:emma.kelso@ofgem.gov.uk)) in the GB Markets team.

Yours sincerely,



**Emma Kelso, Head of GB Markets**  
**Ofgem**

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<sup>3</sup> Please see <http://www.ofgem.gov.uk/ABOUT%20US/ENFORCEMENT/INVESTIGATIONS/CLOSEDINVEST/Documents1/National%20Grid%20Competition%20Act%20Decision%202708.pdf>