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Dear Sir/Madam,

## **Review of Current Metering Arrangements**

This letter launches Ofgem's review of current metering arrangements. The focus of the review is to assess how the competitive market has developed, to consider a number of issues relating to the current arrangements, and to help inform the design aspects of the smart metering implementation programme.

### ***Introduction***

Since 2000 Ofgem has taken measures to facilitate competition in gas and electricity metering services, to promote lower metering costs, better service, accurate billing and encourage innovation and the introduction of smarter forms of metering. Ofgem considers that competition can deliver significant benefits whilst driving down the costs of providing and maintaining conventional<sup>1</sup> and smart meters, especially in a period of rapid technological innovation.

We consider that the commercial incentives created by competition, combined with the "supplier hub" principle that puts suppliers in charge of key investment decisions in metering, provide the best means of protecting consumers over the long term and ensuring that new metering investment meets their needs.

There are, however, currently a number of inter-related metering issues within the market, and Ofgem considers that the timing is appropriate to launch a review of competitive conventional gas and electricity metering arrangements. Understanding where there are issues with current arrangements may also helpfully inform for example, the detailed design of commercial arrangements for the smart metering rollout programme. This letter sets out our current thinking and seeks initial information from suppliers, metering businesses, and other interested parties on the principal review issues and the scope of the review.<sup>2</sup> We have committed previously to undertake a review of competitive metering and this open letter explains the background, proposed scope of the review and the importance of undertaking it now.

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<sup>1</sup> Non smart meters

<sup>2</sup> This information is requested pursuant to section 47 Electricity Act 1989 and section 34 Gas Act 1986.

## **Background**

### *Electricity metering*

On 29th 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 electricity 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 (conventional MAP) under price control.

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 to look at how the market is developing and responding. 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 vulnerable customers, and the behaviour of incumbent suppliers with in-house metering businesses in the deregulated market.

### *Gas Metering*

Gas distribution network operators (GDNOs) continue to have obligations to provide both MAP and MOp<sup>3</sup> services to domestic customers under price control. In our October 2006 decision document on the future of the metering price controls<sup>4</sup>, we made a decision to retain the current gas metering controls and review them at the conclusion of the Competition Act investigation into National Grid's Meter Services Agreements (MSAs).

### *Review Progress to date*

In April 2008 we published a deferral letter<sup>5</sup> stating that the review would be postponed in light of the uncertainties in the market due to the Government's consultation on smart metering policy and the Authority's decision against National Grid for abusing its dominant position in the market for the provision of installed domestic-sized gas meters and the ancillary service of meter maintenance through the Meter Service Agreements (MSAs). These are important considerations and we recognise that uncertainties regarding smart metering and the anti-competitive nature of National Grid's MSAs (and the uncertainty while they remain in force pending resolution of our investigation and the subsequent litigation) are likely to have impacted on the development of competition in gas metering.

Ofgem considers that it is now appropriate to conduct the review given that the Government has decided to roll out smart meters and also that the Court of Appeal has recently issued a judgment in the National Grid, MSAs case<sup>6</sup>. We have decided however to broaden the scope of the review and gather detailed data on how the current metering market functions, whilst also looking at a number of specific issues.

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<sup>3</sup> In gas metering, MOp services are generally referred to as MAM (Meter Asset Management) services.

<sup>4</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>5</sup> *Review of Competitive Metering - Deferral Letter*

[http://www.ofgem.gov.uk/Markets/RetMkts/Metrng/Comp/Elec/Documents1/Review%20of%20Competitive%20Metering\\_Deferral.pdf](http://www.ofgem.gov.uk/Markets/RetMkts/Metrng/Comp/Elec/Documents1/Review%20of%20Competitive%20Metering_Deferral.pdf)

<sup>6</sup> National Grid has sought permission to appeal to the Supreme Court.

## ***Principal Review Issues and proposed scope of the review***

The review will focus on how competition in electricity metering is developing and responding following removal of the price controls. The review will include issues such as any unforeseen impacts on vulnerable customers, the behaviour of incumbent suppliers with in-house metering businesses in the deregulated market, considering how the industry arrangements can be improved and how any lessons learnt can be considered and taken into account in the smart metering implementation programme.

A key element of the review therefore will be an assessment of the impact that lifting the controls has had on suppliers' electricity metering costs

### *Network companies' obligations*

The review will also assess whether the current arrangement and controls within gas metering are providing effective competition, in particular it will evaluate the PPM price cap and the impact of last resort obligations on networks. This review will enable Ofgem to consider holistically the metering landscape, in particular the developments since the review of gas metering arrangements (RGMA), and the impact of lifting the obligations and price controls since March 2007 for new and replacement electricity meters.

### *Vertical Integration*

We are keen to understand how vertical integration of gas and electricity metering is impacting upon competition and consumers, as concerns have periodically been raised regarding the behaviour of vertically integrated metering businesses in the market and whether this behaviour may be acting as a deterrent to new entry and/or expansion of competitive metering providers. When the electricity price controls were removed in March 2007, Ofgem initially proposed that distribution companies should be required to separate their metering and distribution businesses at the same time. Following consultation with DNOs, this proposal was not actually implemented but we indicated that we would reassess the issue as part of the metering review.

Another area of interest at the time of the October 2006 decision was the availability of metering services for small and/or out-of-area suppliers following removal of the obligations, particularly if the trend towards incumbent suppliers taking metering services in-house continues<sup>7</sup>. We will also seek information on this issue as part of the metering review.

### *Interoperability*

Achieving commercial interoperability (eg the contractual arrangements for use of metering assets on change of supplier) is important in terms of ensuring there are no adverse impacts on supply competition. Concerns have been raised about the lack of common commercial interoperability arrangements between suppliers and meter providers and about high transaction costs. This issue will become increasingly important as smart meters are rolled out to all domestic customers. Therefore, the review will also seek to identify how commercial interoperability is functioning.

Central to the current structure is the principle of the supplier hub, therefore we will be interested to understand how the current structure is working, including the structure of contracts, how metering assets are transferred and market shares. We will be keen to

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<sup>7</sup> Concerns were expressed during the price control review that once obligations to offer terms for metering services were removed from DNOs, large incumbent suppliers would bring their metering services in-house and might refuse to offer service to smaller suppliers and/or those supplying outside of their incumbent region.

understand the relationship between consumer switching behaviour and metering asset transfer of ownership.

### *Other*

Another key point of interest is the extent to which the current rules, codes of practice and protocols for gas and electricity metering sufficiently protect the consumer in terms of cost, accuracy and quality of service.

### **Next Steps**

In the coming weeks we will be writing to suppliers, metering businesses and other interested parties with specific questions in relation to the above issues. We will be analysing the responses to this letter and the information requests and, depending on the issues identified, we will consider our next steps including whether a consultation on those next steps is appropriate.

Ofgem consider that the review will help us to identify any appropriate next steps and provide a useful insight for the transition to smart metering. We are therefore seeking your general views on all of these issues and the proposed scope of our review at this stage and we would be grateful for any responses by 23<sup>rd</sup> April 2010.<sup>8</sup>

If you have any questions please feel free to contact [steve.rowe@ofgem.gov.uk](mailto:steve.rowe@ofgem.gov.uk) or [anna.pechivanidou@ofgem.gov.uk](mailto:anna.pechivanidou@ofgem.gov.uk)

Yours sincerely,

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**Head of Retail Markets**  
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**Ofgem**

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<sup>8</sup> This information is requested pursuant to section 47 Electricity Act 1989 and section 34 Gas Act 1986.