
Ofgem Review of Current Metering Arrangements

This response is not confidential.

1.1. Purpose

This document is the response to the open letter from Ofgem, seeking views on the “Review of Current Metering Arrangements”.

1.2. Background

The Association of Meter Operators (AMO) is a trade association representing the interests of its members. There are twenty members on the AMO who include all of the active electricity Meter Operators and the largest gas Meter Asset Managers. Many of these companies also own significant quantities of metering assets, either directly or through associated companies.

1.3. Member Involvement

Many of the AMO members are undoubtedly providing their own response directly to Ofgem. This AMO response does not necessarily represent the agreed views of every member on each issue. This response has been prepared by the AMO Consultant on behalf of the AMO members based on views expressed through individual discussion, meetings and written comments provided by members. With the timescale available for response, it has not been feasible to circulate this response for approval to all members.

Although we recognise that this work is not seeking to impinge on the smart metering activity it has been necessary to make some comments about the forthcoming smart world based on the experience of the current activities.

The AMO membership is grateful for the ongoing dialog with Ofgem, including attendance at our recently meeting to discuss these issues. The AMO membership would welcome the opportunity to provide any further clarification or discussion of any of the issues raised.

1.4. Key Issues

There is no doubt that competition in metering services progressively introduced since 1994 has driven down the cost of metering services, increased the quality of service and led to innovative solutions to the benefit of all utility customers.

The AMO members are supportive of a competitive environment, therefore the removal of all ‘last resort’ obligations is welcomed.

Competition in metering services has not developed as well as it should have done over the last few years due to two issues causing uncertainty:

- the indecision of any mandate, or then which market model to rollout smart metering across the UK, and
- uncertainty over the competition issues in the gas metering sector.

There is no evidence that the removal of the ‘last resort’ obligations from electricity Distributors from 2007 has had any detrimental effect on electricity customers.

Industry information systems should support the circumstances where a customer has directly appointed the meter services provider.

Energy suppliers should be obliged to deal with agents appointed by consumers, provided that the service they operate and the equipment they deploy is compliant.

Consideration should be given to create a ‘standard form’ bi-lateral agreement between energy Suppliers and metering companies.

The core metering governance arrangements MAMCOP, OAMI and MOCOPA® could be reviewed to see if there is any opportunity for convergence or consistency.

1.5. Network Company Obligations

The AMO members are supportive of a competitive environment, therefore the removal of all remaining 'last resort' obligations is welcomed.

The remaining last resort obligations have price caps which are said to under charge prepayment metering services. This is believed to result in prepayment metering being provided under the 'last resort' provision and credit metering under a competitive regime. This artificially distorts both the last resort activity and the commercial metering services.

It has been reported that only a limited number of meters are being fitted under the remaining 'last resort' obligations on gas transporters. If this is the case, then removing the obligations should not be too disruptive to the market.

There is no evidence that the removal of the 'last resort' obligations from electricity Distributors in 2007 has had any detrimental effect on electricity customers, or energy suppliers. It did cause some disturbance to the market as suppliers had to actively procure new competitive service providers, although they did have two years notice of the intended changes.

A lesson from the electricity changes in 2007 is that there should always be clear separation/transparency of metering charges (both MAP & MAM) and use of system charges. The metering charges should not be bundled with use of system charges and presented as a single charge.

In the electricity model there is clear separation between MAP & MOP with an acceptance that different companies can act in the different roles over the life of the metering asset. This concept has not been accepted by all participants in gas metering provision, meaning that certain participants are only willing to operate a combined MAM/MAP activity. The different approach needs challenging to understand if there is any justifiable reasons for maintaining a combined activity.

Members have reported some difficulties in successfully providing competitive metering services on iGT networks. A particular issue for suppliers and MAMs has been the ability to provide prepayment meters on iGT networks. This is an aspect that members believe should be included in Ofgem further investigations.

Members are still concerned about the significant numbers of meters which are exchanged under the PEMS arrangements. The commercial drivers of network companies and MAMs are different which may be leading to meters (or components of the metering system) being changed unnecessarily. Provision of a PEMS service under a smart meter environment will become extremely burdensome for Transporters and the other stakeholders. Equally the current obligation on suppliers to provide a three to four hour service where prepayment metering has failed, will effectively apply to all 'domestic sized' meters (assuming valves are installed), removing one of the key drivers for PEMS.

There may be a need to revisit the obligations of the 'gas act owner' to ensure the obligations on the supplier and gas transporter are made appropriately. For example, where the meter was provided by the gas transporter, going forward the supplier needs to take on the obligation of ensuring that the meter is accurate for customer billing.

1.6. Vertical Integration

The AMO members have worked since the AMO inception in 1995 to highlight areas of cross subsidy or unfair competition between Distributors and related metering businesses. Recent examples that have been considered include the provision of double pole isolators to a related metering business, but not to competitive metering businesses operating in the same distribution business; and repair of damaged meter boxes. These and similar issues have been addressed by highlighting the 'non discrimination' obligations within the Distribution licences and generally resolved through informal pressure, rather than through escalation to the regulator.

In recent years there has been an increasing trend for Suppliers to 'in source' the provision of metering services, particularly in geographic areas where they are a significant supplier. This could have the effect of 'squeezing out' the independent agents. The AMO members include a range of members therefore views on this aspect are mixed. Ofgem views since 1994 have been to see a competitive metering market and the AMO membership supports the view that provision of metering services should be

provided in a competitive environment. Competitive has been proven to drive down cost, increase quality of service and enable innovation, all of which is good for customers and 'UK plc'.

It is now normal practice for customers in the large electricity and gas metering market to contract directly with metering companies for metering services. The metering service to the customer may also include provision of data derived from the meter. Suppliers recognise this commercial relationship and provide supply offerings exclusive of metering charges.

In the Advanced metering market a similar model is developing, particularly for the large customer groups where they are seeing the benefits of securing a common metering and data provision service across their portfolio. Benefits include a single contractor across their portfolio is able to agree an SLA associated with access and installation at agreed times/days of week; provision of meter reading data in a common format (one member reports offering 27 different formats to meet varying customer requirements); achievement of actual reads to suppliers to avoid estimated billing; satisfying the requirements of the government Carbon Reduction Commitment Energy Efficiency scheme; transparency of metering costs; and the ability to change supplier without loss of metering data or requirement to change meters.

In the smaller metering market, domestic and SME, to date the metering has provided little or no value to the customer so they have taken little interest. However, the smart metering rollout is intended to provide the same interest by customers in the metering data and creation of innovative data provision services. It should be anticipated that independent metering service companies will emerge with innovative and competitive offerings directly to individual customers and particularly customer groups, such as housing associations, etc.

Transparency to metering service pricing between an energy supply including, and excluding, metering services should be a requirement upon suppliers. As should a clearly defined role of 'metering' with the new governance arrangements, even if that role is owned by a company that also operates as a supplier.

1.7. Interoperability

Technical interoperability can and is achieved at various points in the provision of metering services. The main issue has been, and will continue to be, commercial interoperability.

Commercial Interoperability works on many levels. At the customer level, a customer representative at the Ofgem Interoperability group has made it quite clear that in electricity has can go to the market and seek prices for a metering service to provide and maintain a CoP5 meter. After 16 years of this market everyone has a common view of what is included within this activity, and he can confidently compare one with another. This is not so true of gas, although the work of developing the ASPCoP is helping this to be more clearly defined.

In the market going forward a similar definition of a 'smart metering provision' will need to evolve so customers (and suppliers) can be clear of the boundary of the activity.

At the Supplier/MAM/MAP level the market has two frameworks for charging for metering services. Both are valid methods of charging, but result in differing impacts for differing suppliers over the life of the metering system:

- Supplier pays transaction fee for meter installation then [lower] rental charge for meter over lifetime, or
- Supplier pays [higher] rental charge over meter lifetime where the installation cost is amortised into the rental charge.

Each model has advantages and disadvantages to the respective stakeholders. A supplier who generally works in the first model will take the 'hit' where the customer has their new meter fitted and then changes energy supplier. The subsequently supplier is only paying the lower rental charge. In the second model the meter provider is 'assuming' that the meter will remain installed and generating income for x years. In a competitive market it is extremely difficult to propose a single solution, although if the market coalesced around one model the commercial interoperability would become easier.

In the current market there are situations where perfectly serviceable meters are being changed because the new supplier and the metering company have not reached a commercial arrangement for the

continued use of the installed meter. These costs fall within the industry and reflect back into increased charges on customers. This situation is not good for customers or 'UK plc' and is ultimately not sustainable.

There are also situations where the meter remains in place and the new supplier pays a nominal rental but without committing to the full commercial arrangements which may include clauses for 'early removal fees', or liabilities, etc. This leaves the metering company fully exposed to the 'stranding risk'.

A proposal, would be to create a 'standard form' bi-lateral agreement between Suppliers and metering companies. This would give a consistent view of the general role, although the individual participants could change the standard form, and would agree the specific prices bi-laterally. This could assist the industry to 'coalesce' around a single commercial model, but due to Competition Act requirements could not mandate that two parties use the agreement.

1.8. Other

The current industry processes support the concept of a MAM and a separate MAP, however the data items are not always fully populated or transferred between market participants successfully. This causes difficulty for metering providers to successfully track their equipment and charge the appropriate participants.

The existing industry systems 'assume' a supplier appoint of the metering company and are 'blind' to the existence of direct commercial relationships between customers and metering companies. There would be benefits to all stakeholders, to ensure that new industry systems recognised the existence of these customer/agent commercial relationships and gave visibility - particularly to the incoming supplier.

Energy suppliers should be obliged to deal with agents appointed by consumers, provided that the service they operate and the equipment they deploy is compliant. At present, the Electricity and Gas acts allow for customers to provide their own metering equipment, but industry governance could be strengthened to ensure the right of a consumer to choose their agents.

Greater convergence of gas and electricity governance, IT and processes would be beneficial.

There would be positive benefit for the market as a whole if there was a "thin" central registry. A thick central activity will take longer to develop and will result in a difficulties for parties to innovate new services based on the smart infrastructure.

Absolute clarity is essential on the data-ownership question. Metering data belongs to the customer except where stated otherwise in regulations. Failure to provide this assurance will fuel growing alarmist concerns about intrusions into privacy.

Current metering arrangements take no account of the now foreseeable need to accommodate Feed-in Tariffs, Smart Grid Applications and Electric Vehicle Charging.

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