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Dear Steve,

23rd April 2010

REVIEW OF CURRENT METERING ARRANGEMENTS

1. I am writing in response to your letter dated 1st April, that sought views on the proposed scope of Ofgem's review of current metering arrangements.
2. British Gas agrees with Ofgem that competitive metering arrangements have and can *"deliver significant benefits whilst driving down the costs of providing and maintaining conventional and smart meters"*.
3. DECC have recently decided, in support of the competitive metering model, that energy suppliers will be responsible for the delivery of metering services,¹ stating; *'The Government has concluded that the Central Communications Model, under which energy suppliers will be responsible for purchasing and installing meters, and communications are co-ordinated centrally offers the best model for Britain's smart meter roll out.'*

British Gas has therefore mobilised to begin the deployment of smart meters, creating a metering business and confirming plans to install two million smart meters by 2012. This will deliver early benefits to consumers and deliver capability for a safer and faster industry go live. It is essential that any metering review builds on the extensive analysis and consultation undertaken by DECC, and upon the certainty that their decision has now created.

Ofgem must therefore be clear about what is inside and outside the scope of the metering review.

4. British Gas agrees that there are some issues associated with competitive metering arrangements that a review could address. We therefore welcome a review and believe this should focus on;
 - Reducing the risk of stranding upon change of energy supplier - commercial interoperability
 - Reviewing the meter inspection regime
 - Removing barriers to competitive metering associated with Independent Gas Transporters Networks
 - Simplification of meter worker accreditation schemes
 - Vertical integration
 - Last resort metering arrangements

¹ Government response to the consultation on electricity and gas smart metering', dated December 2009

Reducing the risk of stranding after a change of energy supplier – commercial interoperability

5. Meter Asset Providers lack confidence that they will recover revenue for their assets after a customer has changed supplier. This results in additional costs and risk premiums that increase costs for consumers. There are two fundamental issues that need to be addressed;
 - a. **Contractual terms and charging methodologies;** Differences in contractual terms and more importantly charging methodologies result in failure by parties to agree because of perceived unfairness.

Different approaches to recovery of the meter installation costs are, in our view, the single biggest issue. Some parties pay the installation cost up front so, on churn, the incoming supplier only contributes to a portion of the physical asset cost. Others amortise the asset cost so that the incoming supplier contributes to the cost of the asset installation as well as the asset itself. In our view the latter is preferable; it is fairer because all costs are apportioned and it results in a reduced potential for customers to face upfront charging for meter installation costs.

The review must deliver a regulatory framework that requires some standardisation of charging methodologies and potentially terms and conditions, offered by meter asset providers upon churn.

- b. **Recognising the distinct role of the meter asset provider;** As metering competition has developed the functions of meter asset provision and meter asset management have become increasingly distinct. This is a desirable function of competition. The market has responded to demand for efficient meter provision and effective service delivery by the evolution of separately structured and geared businesses for the provision of meter assets and for the management of other metering activities such as physical meter work.

However the role of the meter asset provider is inadequately recognised in today's gas regime both in terms of industry processes and supplier Licence obligations. British Gas has initiated proposals that, if supported by Ofgem, will fix deficiencies in our industry processes. However gaps in Licence obligations must also be fixed. Presently energy suppliers are only obligated, upon acquiring a customer, to appoint an approved meter asset manager, and this might not necessarily require the appointment of a meter asset provider. This regime does not therefore recognise the increasingly separate roles of asset provision from asset management.

The review must ensure that the distinct role of the meter asset provider is fully provided for by the regulatory framework and that gaps in today's regime are removed.

Reviewing the meter inspection regime

6. Energy suppliers have a supply licence obligation² to read and inspect all meters at least once every two years. We believe this obligation offers poor value for money for customers and that there are much better ways of meeting the objectives which the obligation seeks to address.
7. As well as failing to provide value for money for customers now, the current obligation is also an obstacle to suppliers and customers capturing the benefits of smart metering. One of the key benefits to suppliers and customers of smart meters is the avoided cost of pedestrian meter reading. If we do not need to collect pedestrian meter reads, but are still required to inspect meters every two years, then the full cost of this activity will be attributable to the inspection requirement and the savings we can make from scaling back our pedestrian meter reading activity once smart meters are in place will be hugely reduced.
8. For the industry as a whole this means that that a significant proportion of the £2.6 billion of benefits that DECC has attributed to avoided meter reading in its smart meter impact assessment will not be delivered if the two-year inspection requirement remains in place.
9. The case for a revised regime is not limited to smart meters. Customers with conventional meters already bear costs and inconvenience as a result of the present meter inspection obligations.

As part of the review Ofgem must, together with energy suppliers and the Health and Safety Executive, identify ways that this regime can be modernised.

Removing barriers to competitive metering associated with Independent Gas Transporters Networks

10. In 2004 changes were made to industry structures, contracts and processes such that metering activities were recognised as distinct from network activities³. These changes have only been applied to large transportation networks. The lack of separate and transparent arrangements for independent gas transporters networks restricts the development of competitive metering arrangements for meters and customers supported by those networks.

The present industry arrangements for independent gas transporters networks need revising such that separate processes and contracts and processes are in place for metering services.

The simplification of meter worker accreditation schemes

11. The challenging timescales associated with the roll-out of smart metering will see thousands of new meter worker roles created across the UK over the next few years. British Gas has already announced its intention to make significant investment in this area and create thousands of 'green' jobs.
12. Presently, each electricity network owner operates a different accreditation regime. Some have different regimes for each of their respective distribution network areas. This is not acceptable as it adds complexity, increases cost and risk and provides a significant

² Gas Supply Licence Standard Condition 12.8-12.16 and Electricity Supply Licence Standard Condition 12.14-12.16

³ Review of Gas Metering Arrangements 2004

barrier to the recruitment and training of meter workers and therefore to metering service providers. British Gas has developed a dual fuel training programme with the National Inspection Council for Electrical Installation Contracting. We believe this provides a robust platform that can be used to simplify the overly complex arrangements that are in place today

The review must put in place a framework that will result in a single national accreditation scheme.

Vertical integration

13. It is typical of a competitive market that individual companies have the freedom to take decisions as to whether they in-source or outsource activities across a full range of their supply chain. British Gas has, over time, flexed its approach with regard to metering, and other services to deliver the maximum value for customers.
14. However the issue of vertical integration of metering services across businesses with both supply and network interests raises different concerns. There is significant potential for those energy suppliers that are also affiliated with network distribution businesses to benefit unduly, even unwittingly, from cross subsidies.

The review should deliver a regulatory framework that puts in place improved transparency and assurance to ensure that cross subsidies between network and supply businesses do not exist.

Last resort metering arrangements

15. Presently gas network owners are obligated to provide last resort metering services to domestic customers. Last resort metering services are not available for non-domestic gas customers and all electricity customers. Instead a number of legacy Joint PES Work-steam agreements are in place.
16. There is a case to be made for either removing the obligation upon gas network owners to provide last resort metering services, or reintroducing similar obligations for electricity and non domestic gas customers. However, care needs to be taken to ensure that any last resort metering arrangements are fit for purpose, are charged for appropriately and crucially do not distort competition.
17. Last resort metering arrangements could only be provided by network companies because they are independent and can be naturally selected by area. It would be inappropriate for energy suppliers to provide last resort metering services to their competitors. In addition it would not be possible to identify which energy supplier should be the last resort service provider for which customer or competitor.
18. With regard to the price controls that are applied to any last resort metering arrangements we are not supportive of persistent industry cross subsidies across different customer groups. Therefore any cross subsidies that are presently in place should be removed.

Ofgem should review the case for last resort metering arrangements. If they are to remain Ofgem must make sure that they are fit for purpose and that charges associated with them are equitable and do not contain subsidies.

19. Should you have any questions or wish to discuss this response further please do not hesitate to contact me on the above number.

Yours sincerely,

Steve Briggs
British Gas