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Dear Steve

Re: Review of Current Metering arrangements

I write here on behalf of CE Electric UK Funding Company (CE) ("us" or "we" hereinafter), which is the UK parent company of the electricity distribution licensees Northern Electric Distribution Limited (Northern) and Yorkshire Electricity Distribution plc (Yorkshire).

Further to Ofgem's letter date 1 April 2010 and subsequent emails between us and your colleague Anna Pechlivanidou, we welcome your review and the opportunity to be able to provide our views on current metering arrangements and very pleased that we will be included in the group of stakeholders you will be contacting with specific questions on the issues in your letter.

CE continues to offer non-legacy meters as a competitive meter asset provider (MAP) with no meter operator business (MOP) so we are very interested in your review as a competitive meter asset provider for conventional meters, a potential meter asset provider of smart meters, a distribution network operator (DNO) with legacy meter assets and a DNO with vulnerable customers who can be affected by metering faults. Our continued presence as provider of new conventional meters (non-legacy MAP) against the backdrop of increasing uncertainty demonstrates our current commitment to a metering market that fundamentally supports competition in energy supply in the run-up to smart roll-out.

We have provided our views on a range of issues in this letter and we have separated our views as a non-legacy MAP from our views as a DNO as we see them as distinct and separate businesses. Both views are expressed in this letter. It is worth noting that some existing MAP businesses are funded by ownership companies who also own DNOs and some are not.

Business separation

We note that Ofgem touches on the subject of separating the metering business from distribution business. We would highlight that as part of the recent electricity price control review income from non-legacy meters is not treated as part of the distribution business nor even as an excluded service; as these meters are therefore provided on a purely competitive basis this aspect can be clearly seen as separated already.

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We do not think that the nature or the type of business that funds the provision of meters is necessarily important and it is the trading framework and incentives that should be the focus of Ofgem's considerations in order to ensure effective competition, both in energy supply, metering services and meter asset provision. However, in terms of access to meter asset provision for small suppliers there may actually be benefits in MAP businesses not being owned by competing supply businesses.

Non-legacy MAP

Our continued participation in the competitive conventional meter asset provision market depends on regular reviews of risks and rewards and a published Ofgem review of current arrangements will clearly be valuable to CE as it will be to other existing meter asset providers. We believe that in addition to the issues highlighted in your review letter, Ofgem should look at other important issues including the extension of existing meter certified asset lives in order not to create a gap between conventional and smart meter availability that might have a negative effect on competition in energy supply. If uncertainties in conventional meter provision become too great even more asset providers are likely to withdraw from the market at a time when new entrants are not likely to join the market, thus leading to a scarcity of meters.

We provide meters to suppliers both large and small and we believe it is healthy for a competitive market and therefore to the benefit of customers for MAP to sit outside large supply businesses; this would avoid smaller suppliers having to obtain meters from their competitors, and avoid them having to fund the initial capital required and enable them to benefit from the bulk purchasing power of the MAP.

We note that Ofgem considers that the commercial incentives created by competition, combined with the "supplier hub" principle provides the best means of protecting consumers over the long term and ensuring that new metering investment meets their needs as it puts suppliers in charge of key investment decisions in metering. Ofgem's position here seems to fail to recognise current financing arrangements; in the current metering market suppliers tend to "rent" from MAPs and the MAPs tend to make the long-term investment decisions and manage the incentives and uncertainties of competition in MAP rather than suppliers. Indeed some suppliers appear to continue to seek to avoid tying up capital in meters whether conventional or smart.

It is the MAP businesses who are trying to manage the uncertainties of providing conventional meters in the run up to a smart meter world; including concerns about the risks of asset stranding and asset life expiry prior to smart meter roll out. In balancing uncertainties, risks and rewards it is clear to us that investment decisions are hindered by uncertainties, especially in a period of rapid technical innovation, as investors seek a level of certainty of ongoing revenues.

There are clearly new uncertainties in relation to the useful asset lives of conventional meters due to the role out of smart meters. MAP businesses can manage these uncertainties to some extent by increasing prices in an unregulated market, but these uncertainties obviously deter expansion ahead of the introduction of smart meters. However, some players have now already withdrawn from providing new conventional meters and unless some significant issues are addressed others may make the same decision. To compound the issue, any player leaving the market is unlikely to be replaced by a new entrant.

Given that Ofgem appears not to be considering any stranded cost mechanisms and as the provision of new conventional meters is vital to ensuring a competitive market ahead of the smart meter roll out, we would urge Ofgem to include consideration of the extension of asset lives of existing conventional meters in its review as a matter of priority in order to avoid a potential "MAP gap" between conventional and smart meter provision.

Interoperability

We agree with Ofgem that meter interoperability is important to ensure there are no adverse impacts on supply competition. In addition, we believe it can be seen that effective commercial and technical interoperability is also key to a successful competitive MAP market. The current commercial and technical interoperability arrangements for MAP in the electricity market facilitate competition in supply; “switching” is smooth as it does not require the meter to be replaced or transferred between owners. Current arrangements also ensure that the MAP provider receives MAP income irrespective of any change in supplier as meters tend to stay in situ throughout their certified asset life unless a tariff change drives the need for a new meter. Not only do these arrangements facilitate competition in supply and smooth switching, the arrangements also facilitate competition in MAP with suppliers being free to appoint new MAPs and replace existing meters if they wish.

Effective commercial interoperability will incentivise investment, reduce waste associated with stranding, ensure smooth supplier switching, minimise transaction costs associated with meter swap visits and reduce customer disturbance. Once installed, we believe that both conventional and especially smart meters should remain on site irrespective of any change of supplier provided the meter is technically capable of meeting the needs of the new supplier.

Given that smart meters may cost ten times more than conventional meters but may only have half the asset life it is essential that the fundamental principles of current commercial and technical interoperability for conventional meters are retained in the transition to smart meters. This will provide more certainty for asset providers as they consider much more significant investment decisions. We firmly believe that the uncertainties associated with meter specification and commercial interoperability will delay investment decisions, have a knock on effect on manufacturers and may even affect the smart meter roll out timetable.

Vulnerable customers and urgent metering services

As a DNO we provide continuous power restoration services for customers and this includes a limited urgent metering services (UMetS) capability. A proportion of visits to customers are due to meter faults and some of these relate to vulnerable customers. This aspect can become more sensitive outside normal working hours and we are seeing a trend of increasing DNO visits associated with metering faults. It is therefore possible that some suppliers are employing MOPs with no or limited out of hours capability, or MOPS who do not have complete capability for all aspects of live working at the customer’s supply position. If this is the case it should not be expected that DNOs fill any resulting customer service gaps without appropriate recompense.

Ofgem and Consumer Focus have previously commented on the topic of metering fault visits and that there seems to be a preference for issues to be dealt with on site by the first technical operative who attends the premises. The metering work associated with smart meters is likely to be more complex than with conventional meters. Therefore our restoration staff may not have the training or equipment to resolve metering issues and, with this in mind, the capability of suppliers being able to resolve metering issues outside normal working hours, including UMetS, should be reviewed by Ofgem ahead of the smart meter roll out. We suggest that Ofgem asks suppliers what arrangements they have in place for resolving out of hours metering faults, particularly for faults resulting in a “no supply” for the customer and especially those faults associated with vulnerable customers.

Moving meters on service alterations

Similar issues to those affecting UMetS also impact on moving meters on service termination

alterations carried out by DNOs. Two DCUSA change proposals on this topic (DCP037 and DCP019) have been considered by industry parties to address the one-stop-shop approach by DNOs. However, in a smart environment DNOs' operatives may not have the training or equipment to move meters and a meter operator may need to visit each site where a DNO has moved the service termination equipment. There would be clear benefits in suppliers coordinating the two visits in terms of minimising disturbance for the customer. It would seem prudent that any review of metering arrangements that included UMets should also include a review of meter moves as a result of service termination alterations.

In summary;

- we believe that there may be benefits for smaller suppliers in MAP businesses not being owned by competing large supply businesses;
- in the current market suppliers tend to “rent” from MAPs and the MAPs tend to make the long term investment decisions and manage the incentives and uncertainties of metering competition rather than suppliers;
- Ofgem should include consideration of the extension of asset lives of existing conventional meters in its review as a matter of priority in order to avoid a potential “MAP gap” between conventional and smart meter provision;
- It is essential that the fundamental principles of commercial and technical interoperability currently applicable to conventional meters are retained in a smart metering environment; and
- we suggest that Ofgem asks suppliers what arrangements they have in place for resolving out of hours metering faults, particularly for faults resulting in a “no supply” for the customer and especially those faults associated with vulnerable customers.

We welcome this opportunity to put forward our views on the current metering arrangements and look forward to further opportunities to discuss our views in more detail with you and to respond to further questions and information requests you may want to put to us as a stakeholder in the coming weeks. If you need any further information on any of the points raised in this letter please do not hesitate to contact me

Yours sincerely,

Chris Allanson

Chris Allanson
Market Strategy Manager