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Dear Emma,

Review of Current Metering Arrangements

Thank you for your letter dated 1 April 2010 providing the opportunity for us to comment on the current metering arrangements within the industry.

Network companies obligations

Following the decision by Ofgem, on 29 September 2006, to allow the obligations and price controls on electricity meter operation services (MOp) and the provision of new/replacement electricity meters to lapse in line with sunset provisions set out in the distribution licence, we subsequently withdrew from the metering business on 30 June 2007;

- In line with our Licence Conditions we have arrangements in place with all electricity suppliers for the provision of our legacy meters
- We also provide an urgent metering service (UMetS) even though this is not a requirement under our Licence Conditions
- We believe that positive action should be taken in respect of the costs of stranded assets as a result of the roll-out of smart metering

Although suppliers have not specifically stated they are using an accelerated change-out programme, we have seen, during the last few years, a large reduction in the number of legacy meters, and been particularly concerned about the volumes of prepayment meters being replaced with new technology (key). Of course, even this technology will be replaced as a consequence of the roll-out of smart metering.

Since we left the metering business, these meter change-outs have had a significant effect on our legacy meter base, as seen in the table below which provides a snapshot of the reduction in meter volumes, and the subsequent serious detrimental impact on our ability to recover expenditure we were obliged to make through the price controlled legacy meter rentals:

Volumes Jun-07	MAP Income	Volumes Mar-10	MAP Income	Var. (Income)
2,200,240	£7,919,469	1,647,175	£5,320,016	-£2,599,453

Interoperability

This is not an issue for distribution network operators (DNOs), as the Licence Conditions requiring us not to distort competition in supply ensure we have arrangements in place with all suppliers for legacy meters. We fail to see why similar obligations could not be placed on all suppliers who provide or control metering service providers. Clearly, action must be taken should evidence be found suggesting parties have distorted competition.

Stranded Asset Costs

The early replacement of any meter results in stranded costs, the irony being that DNOs were obliged, under their licence, to provide new/replacement meters until at least the 31 March 2007. Consequently, DNOs continued to install new meters, some of which had certification lives of 20 years. Indeed, 'non-smart' meters will continue to be installed pending the roll-out.

The price control, covering legacy meters, is well established, understood by the industry and could potentially be used to incorporate a way of meter asset providers recovering any stranded costs associated with the roll-out of smart metering; in a similar way the adjustment factor is available to cover instances of suppliers carrying out accelerated replacement programmes of prepayment meter technology.

Alternatively, as the widespread stranding of assets was never a factor in the price control then the price control could be lifted to enable legacy meters to be treated in the same way as new/replacement meters.

The metering price controls that have already been lifted were as a direct result of competition being well developed in the market, and it is appropriate for a review of competitive metering to be undertaken as this may assist in the decision making process for the remaining element of the metering price control.

In an effort to minimise stranding costs, we have suggested previously that it would be helpful to give some thought to suspending the statutory meter change programmes, by putting derogations in place or extending the lives of meters beyond their statutory lives.

Urgent Metering Services (UMetS)

Unfortunately, Ofgem rejected the variation DCP008 we raised through the distribution connection and use of system agreement (DCUSA): 'provision of urgent metering service' on 24 July 2008, which sought to complete the work of the review of electricity metering arrangements (REMA) from 2001, and put in place an agreed process with regard to both a supplier or their customer contacting the DNO when in fact the problem was with the metering equipment.

This does now appear to be a 'goodwill' service, as some suppliers still rely on the DNOs that provide this to be the MOp of last resort, even though the obligation has been lifted.

From a customer service perspective, suppliers need to provide a 24/7 service to their customers to cover any issues with their metering equipment. It should be noted that following the roll-out of smart metering its unlikely DNOs will purchase smart meters, resulting in the official demise of UMetS.

In contrast to the goodwill service that we and other DNOs operate in emergency situations in the interests of customer service, there is some evidence that some Suppliers are not playing their full part in providing appropriate services to customers via the competitive metering market. Ofgem will be aware of the industry discussions over the years, particularly those initiated by the DTI, in relation to temporary de-energization of customers' premises to allow customers to make small modifications to their house wiring, for example connecting in a new consumer unit. This is clearly work that under the Supplier Hub principle the Supplier should arrange, and through the Supplier's MOp. For some reason Ofgem, DTI (as was) and the HSE seemed to see this as a DNO issue to manage, and placed pressure on DNOs to introduce an approach that we regard as suboptimal and illogical, under the guise of safety. However this is clearly a customer service that Suppliers are best placed to manage, using the MOp as their agent, and the opportunity should be taken to put these arrangements on a logical long term footing.

It is also not clear from the information passed to us that all Suppliers are treating their duty to regularly inspect meters with the seriousness required. This is another area Ofgem should explore further.

Observations

I should like to suggest that the letter you are sending out shortly to suppliers, metering businesses and other interested parties contains questions in respect of:

1. Should 'Metering' be a separate licensed business, ensuring transparency and true competition for this activity across the industry?
2. From a customer service perspective, what provisions should be in place for customers with metering problems that occur 'out of hours'?
3. Similarly what provisions should be in place for temporary de-energizations necessary for work by the customer, or his electrician, on the customer's installation?
4. Are Suppliers discharging their obligations to regularly inspect meters in a robust manner?
5. As a result of competition in the metering market, should the remaining element of the electricity metering price control, covering legacy meters be lifted?

I hope this is useful and should you require any further information please do not hesitate to contact me.

Yours sincerely,

Paul Bircham
Regulation Director