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Dear Emma,

National Grid Gas Response to Review of Current Metering Arrangement

National Grid Gas (NGG) welcomes the opportunity to respond to Ofgem's letter launching the review of current metering arrangements. Through our subsidiaries, NGG has a significant interest in the current and future developments of the metering market. National Grid Metering is a subsidiary of NGG, providing metering services to around 16 million of NGG's gas meters within the regulated gas market.

NGG believes the priorities for the review of current metering arrangements should be;

- to establish the benefits competitive metering has provided to end consumers,
- to review the current industry practices and identify whether amendments are needed to improve the metering arrangements in a manner beneficial to consumers, and
- to set out a clear route map for the transition between current metering arrangements and those required to support the deployment of smart metering

We recognise that the review may be able to identify differences between gas and electricity metering in the way that competition has developed. There may be value in assessing the extent to which the different regulatory regimes have influenced the market participants and the development of competitive arrangements. We suggest the review should consider the current licence obligations in gas metering and whether these remain the most effective mechanisms to ensure consumer protection.

We expect that the review will identify a number of issues to address with the existing arrangements. We suggest that any proposals for changes are set in the context of the anticipated transformation of the market for smart metering implementation. The transition will extend over a number of years and we feel it will be helpful to have revised 'legacy' arrangements that are linked to the start of the roll-out and can endure until the deployment of smart metering is substantially complete.

If you have any queries regarding our response please don't hesitate to contact me or Eric Fowler on 0121 424 8574.

Yours sincerely

Paul Rogers by email

Background Information

NGG has actively supported Ofgem and participants in the energy market in taking steps to facilitate competition in metering services. These include delivery of the RGMA project in 2004, assisting gas suppliers as they have mobilised their chosen competitive market meter managers and promotion of transparent arrangements for connection of AMR devices to gas meters.

The "supplier hub" principle, formally established in gas metering at the implementation of RGMA in July 2004, has put suppliers in charge of key investment decisions in metering. Centrica led the way in appointment of new competitive meter operators (CMOs) and other suppliers have undertaken market testing and some more limited mobilisations. Under the CMO arrangement several millions of gas meters have been installed. For a variety of reasons, the progress of competition has not been as rapid as some had anticipated and increasingly the focus has been on preparation for the deployment of smart metering as opposed to continued development of 'traditional' metering.

NGG openly supported the approach taken by Ofgem during the 2004 electricity distribution PCR that was further endorsed with Ofgem's decision in autumn 2006. These permitted 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. We agreed it was appropriate to recognise that the transition to competitive metering would be gradual and thus it was sensible to retain price controls on 'legacy' meters whilst giving notice to the market of the removal of constraints on new/replacement metering. Although most of the competitive metering models are based on a dual fuel service provision, gas distribution network operators (GDNOs) continue to have obligations to provide metering services for domestic consumers under price control, some 3 years after such regulatory constraints were lifted from electricity metering.

We welcome a review of the existing metering arrangements to identify issues associated with the continuing regulation of gas metering and to examine how competition in metering can be developed to support an efficient and consumer focused deployment of smart metering. The review of the 'legacy' arrangements is necessary as part of a holistic detailed design of commercial arrangements for smart metering rollout.

Response to Principal Review Issues and Proposed Scope of Review

We have aligned our response to the sections contained within Ofgem's letter focusing upon

- How the competitive market has developed
- Issues relating to the current arrangements

We presume the review will be primarily focused on domestic metering as competition in the non-domestic market is well established. Ofgem is clearly of a similar view and as a consequence I&C metering does not have price control or direct licence obligations. Our view is that competition in non-domestic metering is sufficiently developed to meet the interests of customers and prevent the ex-incumbent providers from having any undesirable influence. Therefore, the residual regulatory constraints arising through NGG's licence should now be removed.

1) How the competitive market has developed

We believe the review should consider whether the anticipated consumer benefits of competitive metering have been realised under the current metering arrangements. Given Ofgem's primary duty, this should be the main driver for the review rather than a key point of interest. The review should focus on identifying elements of the current arrangements that could be improved and ensuring the relevant amendments are considered within the smart metering implementation programme.

We feel that several factors may have materially affected the development of competition in metering services. These include the different regulatory regimes for gas and electricity metering, the balance of risks and incentives for energy suppliers to appoint and mobilise an independent operator, the perceived risks facing meter operators entering the market, the different perceptions on the entitlement of asset owners to recover their investment and uncertainty regarding the nature of a government mandate for smart metering. A particular factor identified by many parties and acknowledged by DECC is the stranding of asset value as a consequence of the roll out of smart metering. A significant number of these assets have been and continue to be installed in compliance with licence obligations.

We agree that Ofgem should test whether competition in electricity metering has developed differently than that in gas metering following removal of the DNO price controls in 2007. Ofgem should also investigate the nature of that competition. In addition to the subjects of analysis suggested in your letter (*unforeseen impacts on vulnerable customers, behaviour of incumbent suppliers with in-house metering businesses, how the industry arrangements can be improved, etc.*) it may also be helpful to test the state of the market against the concerns that were raised by many of the respondents to the autumn 2006 consultations.

The review should incorporate; the impact of lifting the controls on suppliers' electricity metering costs and the potential costs across the value chain resulting from metering competition. For example, rather than focusing only on meter provision pricing, it may be beneficial to determine whether additional 'externality' costs have been incurred that ordinarily are not measured.

The review should also test whether competition in meter provision has delivered material differences in services or whether it has promoted innovation and technical development that would not have been otherwise achieved.

2) Issues relating to the current arrangements

Network companies' obligations

We agree that the review should assess whether the current arrangement and controls within gas metering are inhibiting competition. In particular it should evaluate the effect of the PPM price cap and the impact of the so called last resort obligations under Standard Special Condition A10 of the NTS/GDN licence that are placed on networks. This should be compared with the situation in electricity metering where the obligations and price controls were lifted in March 2007. It appears that the tariff cap on gas prepayment meters is having a distorting effect on the competitive market and this is evidenced by the disproportionate number of requests for ppm installations that are directed to the networks. In reviewing such arrangements, the potential impacts of different courses of action on consumers should be considered.

Although not a licence obligation, the value for consumers of the Post Emergency Metering Service should also be considered. In particular it should be evaluated how this would operate during smart metering transition and beyond, given that considerable investment would be required if the GDNOs are to provide smart metering services..

Vertical Integration

We agree that Ofgem should examine 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.

At the time of the October 2006 decision Ofgem was concerned about the availability of metering services for small and/or out-of-area suppliers following removal of the obligations from the electricity networks. The issues remain 'live' particularly as there is a clear trend for large energy suppliers to 'in-source' their metering services. The review should consider the

impact on the competitive metering market and on the energy retail market of this increasing trend to in-sourcing.

As currently applies to GDNOs, there may be merit in examining separation and ring-fencing of metering and supply activities to ensure out of area or smaller suppliers have access to competitive terms.

Interoperability

We continue to believe that the greatest macro economic efficiency is likely to be achievable if installed and functioning assets are able to realise their full life service duration. Part of the requirement is met through commercial interoperability so that the artificial and non-technical drivers to displace the assets are reduced when there is a change of supplier. Change of supplier should also not force an administrative burden on the parties beyond agreement of 'churn' contracts unless they are unable to agree reasonable terms. If the current issues in this area cannot be resolved then there may be adverse impacts on supply competition.

As a central tenet of the current structure is the principle of the supplier hub, it will be useful to establish some transparency in respect of the structure of contracts and how metering assets are treated when there is a change of supplier event.

The review should consider the existing arrangements and the potential amendments required within the "supplier hub" model to support the smart metering implementation programme as, in comparison to the existing arrangements, multiple industry participants will require certain functionalities (e.g. smart grid functions) to be incorporated within the metering technology selected. This will require additional commercial interoperability and potential complexity as suppliers may choose not to use certain functionality of a highly specified solution and would not wish to fund the additional meter asset costs that their customers do not require, but are required by other industry stakeholders.

The existing interoperability arrangements relating to industry data will also need to be considered and amended within the design and establishment of the Central Communications Provider to ensure interoperability between industry stakeholders' data requirements and the overall services to be delivered to consumers. The current approach to central communications should provide this interoperability but consideration of the linkage to existing arrangements should be considered within this review.

Other issues

We agree with Ofgem that a key part of the review must be how the current framework sufficiently protects the consumer. This should be the primary consideration in reviewing the current market arrangements and the relationship between competitive and regulated activities.

There are a number of other issues that affect the operation of current metering arrangements. These include but are not limited to;

- obligations for data accuracy and timeliness of data transfer between participants,
- different regulatory regimes that affect the funding of networks when providing meterwork,
- provisions for emergency meterworks,
- arrangements for return of displaced assets, and
- differences between the Gas Act and Electricity Act that lead to different obligations in respect of maintaining accuracy of meters.

End