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Date: 6 July 2010

Dear Sir/Madam,

## **Review of Current Metering Arrangements**

### ***Introduction***

On 1 April 2010 we published an Open Letter<sup>1</sup> to launch our Review of Metering Arrangements that set out our current thinking and sought views from suppliers, metering businesses, and other interested parties on the scope of the review.

We received 33 responses to the Open Letter (eight confidential and 25 non confidential<sup>2</sup>). This letter describes our decision on the scope of the review in the light of consultation responses, and sets out our proposed next steps.

### ***Principal review issues and scope of the review***

This review will enable Ofgem to consider the current metering landscape, in particular the developments since the review of gas metering arrangements (RGMA<sup>3</sup>), and the impact of lifting the obligations and price controls since March 2007 for new and replacement electricity meters. We have assessed the responses to our Open Letter, and have finalised the scope of the review to cover the following topics:

- Consumer protection
- Network companies' obligations
- Vertical integration
- Interoperability

The review will take into account issues such as any potential impacts on vulnerable customers and the behaviour of incumbent suppliers with in-house metering businesses in the deregulated market, and will consider whether and how the industry arrangements can be improved. While smart metering will bring inevitable change to current metering arrangements, we note that it is still important to review current arrangements for a number of reasons. The rollout of smart meters will take several years, during which time non-smart meters will continue to be used. Furthermore, as noted in our initial Open

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<sup>1</sup> The Open Letter can be found on the Ofgem website:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=1&refer=MARKETS/RETMKTS/METRNG/COMP>

<sup>2</sup> The non confidential responses to the Open Letter can be found on the Ofgem website:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=1&refer=MARKETS/RETMKTS/METRNG/COMP>

<sup>3</sup> RGMA document can be found on the SPAA website: <http://www.spaa.co.uk/documents/rgma>

Letter, we intend, as part of this review, to identify any lessons learned that can be taken into account in preparation for the deployment of smart meters.

The particular areas of focus are set out below.

### *Consumer protection*

The review will consider whether the anticipated consumer benefits (such as greater levels of customer service, affordable metering services and availability of alternative retail suppliers) associated with the current electricity metering arrangements have been realised.

### *Network companies' obligations*

Since 2007 the electricity distribution network operators are no longer obliged to offer either Meter Operation (MOp)<sup>4</sup> or new/replacement Meter Asset Provision (MAP) services. However, there are obligations in place in electricity to provide legacy meters under price control. One of the key elements of this review will be an assessment of the impact that lifting the price controls has had on suppliers' electricity metering costs.

The review will also consider the obligation of meter provider of last resort (MPOLR) in gas. This information will help inform decisions on the ongoing need for this function, and, if appropriate, where it is best placed given that suppliers will be responsible for the rollout of smart metering. We will seek to understand the extent to which the MPOLR arrangements<sup>5</sup> are being exercised and how they are being procured.

Respondents to our Open Letter were generally in favour of this issue being included in the scope of the review.

### *Vertical integration*

In our Open Letter we stated that we are keen to understand how vertical integration of gas and electricity metering is impacting upon competition and consumers. Concerns have periodically been raised regarding 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.

Another issue we identified from the response to the Open Letter was the availability of metering services for small and/or out-of-area suppliers following removal of the price control obligations in electricity, particularly if the trend towards incumbent suppliers taking metering services in-house continues<sup>6</sup>. We will seek information on this issue as part of our review.

Most respondents to our Open Letter were of the view that in a competitive market, any business should be able to organise itself in its preferred manner, whether that entails focusing on one aspect of metering, or encompasses the full supply chain of the metering business<sup>7</sup>. However, other respondents also expressed concerns about the effects of

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<sup>4</sup> For a full explanation of defined terms in this letter, please refer to the previous Open Letter: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=1&refer=MARKETS/RETMKTS/METRNG/COMP>

<sup>5</sup> MPOLR arrangements encompass a range of activities. These include the developments since the review of gas metering arrangements (RGMA), and in particular may include a review of prepayment meter (PPM) arrangements.

<sup>6</sup> Concerns were expressed during the price control review in 2006 that once obligations to offer terms for metering services were removed from DNOs, large incumbent suppliers would bring their metering services in-house and might refuse to offer services to smaller suppliers and/or those supplying outside of their incumbent region.

<sup>7</sup> Vertical integration means a supply company whose business also includes at least one of: metering services and ownership of the metering assets. Metering services include the provision, installation and maintenance of gas and electricity meters for domestic and non-domestic consumers.

vertical integration on small supply businesses. We will assess this matter as part of the review.

### *Interoperability*

In the Open Letter we stated that achieving commercial interoperability (i.e. the arrangements for the use of metering assets on change of supplier including contractual arrangements between MAMs and MOPs) is important in terms of ensuring there are no adverse impacts on supply competition.

In response to our Open Letter, there were three key areas of concern: general interoperability issues, the success of the supplier hub model, and arrangements for MAPs.

Respondents raised concerns about the lack of common commercial interoperability arrangements between suppliers and meter providers and the resulting high transaction costs. This issue will become increasingly important going forward given the additional complexity of smart meters and their operation. Therefore the review will seek to evaluate how commercial interoperability is functioning and to identify lessons learned for the smart metering programme. We will seek further views and clarification of these issues in the next stage of this review, an information request to metering businesses, suppliers, network companies, industry gatekeepers and consumer groups.

### ***Exclusions from the scope of the review***

For the avoidance of doubt the following areas have been excluded from the scope of this review, but Ofgem may review these matters in due course. Where appropriate we have signalled how the issue will be progressed.

### *Stranding*

Respondents to the Open Letter expressed concerns about the potential stranding of metering assets in the light of the Government's proposal to mandate the rollout of smart metering.

We note the statement from DECC in its December 2009 document<sup>8</sup> that "the Government remains unpersuaded that there is a case for establishing a scheme to compensate for stranding costs rather than allowing them to lie where they fall". We do, however, recognise that, in some cases, meters have been provided by a network company under a regulated price control as part of their licence obligations, rather than in the competitive market.

DECC's statement noted that where a network company considers that the premature replacement of metering assets due to the mandated introduction of smart meters requires an adjustment to the price control arrangements they will need to discuss this with Ofgem. This issue will not be considered as a part of this review.

### *Two year metering inspection*

Gas Supply Licence Standard Condition 12.8-12.16 and Electricity Supply Licence Standard Condition 12.14-12.16 require suppliers to take all reasonable steps to inspect meters for safety every two years.

Respondents to the Open Letter considered that this obligation may remain in place under smart metering, and therefore should be addressed.

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<sup>8</sup> DECC consultation document found here:  
[http://www.decc.gov.uk/en/content/cms/consultations/smart\\_metering/smart\\_metering.aspx](http://www.decc.gov.uk/en/content/cms/consultations/smart_metering/smart_metering.aspx)

The rollout of smart meters may provide evidence that would permit the two year meter safety inspections to become less frequent. Ofgem will consult with Health and Safety Executive (HSE) if requests from suppliers to exempt them from this licence condition are received. However, it will not form part of this review. It is likely that any changes to the obligation will be subject to a formal consultation process to ensure that stakeholders are able to consider the proposal(s) and their impact upon their business and safety regime.

#### *Independent gas transporters (iGTs)*

Several respondents commented that it is difficult for both suppliers and metering businesses to provide meters onto iGTs networks due to a range of issues. iGTs operate under a different regulatory regime to the Gas Distribution Networks (GDNs). However the iGTs remain obligated to provide metering services through a MAM and install gas meters to domestic premises upon receiving a reasonable request from a relevant shipper.

The GDNs are obligated under Standard Special Condition A43: 'Provision of Metering and Meter Reading Services', to produce charging statements and provide services on reasonable terms, however, there is no equivalent requirement upon the iGTs.

In our 2004 decision document on Competition in the Provision of Gas Metering Services<sup>9</sup> we considered that the majority of changes to the iGT licences (including the formal separation between the transportation and metering businesses) would be unduly onerous to iGTs. Given that iGTs have grown significantly over time we would need to consider whether this is still appropriate. We are conscious that any review of the iGTs should be holistic and therefore take account of previous developments, and the issues raised by the planned rollout of smart metering.

Ofgem has made a commitment in its 2010/11 corporate plan to review the regulatory arrangements for iGTs and Independent Distribution Networks Operators (IDNOs) and we think it is sensible to consider iGT metering as part of that review. Therefore the iGTs will not be considered as a part of the Review of Metering Arrangements.

#### *Post emergency metering services (PEMS)*

Following publication of our Open Letter, respondents across all areas of the supply chain expressed a desire to see PEMS included in the review.

We are aware that the Association of Meter Operators (AMO) is monitoring the issues associated with PEMS and reporting them into the Meter Asset Manager Code of Practice (MAMCoP) Board for dissemination within the industry. We remain unconvinced that we should have a specific focus on PEMS within this review and will continue to liaise with the AMO.

PEMS will only be considered as part of this review in the context of Meter Provider of Last Resort, under the network companies' obligations section of the review.

#### *Automatic meter reading (AMR)*

Respondents highlighted a number of concerns regarding Automatic Meter Reading (AMR) arrangements. Concerns relate to technical issues such as data reading and monitoring, as well as commercial issues, for example the transfer of communication arrangements between suppliers. We remain alive to these issues and will consider them in the context of the proposals for the rollout of smart metering. We therefore do not consider these to be within the scope of this review.

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<sup>9</sup> The decision document can be found on the Ofgem website:

<http://www.ofgem.gov.uk/Licensing/Archive/Competition%20in%20the%20Provision%20of%20Gas%20Metering%20Services%20Licence%20Amendments.pdf>

### *Industry coordination*

Some issues were raised in response to the Open Letter regarding the need to increase transparency between industry bodies. This was particularly in relation to safety, technical and functional activities between gas and electricity metering arrangements. We consider that it is more appropriate for these issues to be resolved by the relevant groups themselves and encourage bodies such as MAMCoP and Meter Operator Code of Practice Agreement (MOCOPA®) to share information where appropriate.

### **Next steps**

In the coming weeks we will be writing to suppliers, metering businesses and other interested parties with specific questions in relation to the issues covered by this review. We will be analysing the responses and, depending on the issues identified, we will consider our next steps including whether a consultation on those next steps is appropriate.

If you have any questions please feel free to contact Steve Rowe (0207 901 7468; [steve.rowe@ofgem.gov.uk](mailto:steve.rowe@ofgem.gov.uk)) or Anna Pechlivanidou (0207 901 7438; [anna.pechlivanidou@ofgem.gov.uk](mailto:anna.pechlivanidou@ofgem.gov.uk)).

Yours sincerely,

**Emma Kelso**  
**Associate Partner, Retail and Market Processes**