CALVIN ASSET MANAGEMENT LIMITED

METER FIT (NORTH WEST/EAST) LIMITED
METER FIT 2 LIMITED
METER FIT 3 LIMITED
(Collectively known as Calvin Asset Management Limited for the purposes of this response)

Calvin Asset Management Limited
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13th February 2011

Steve Rowe
Ofgem
9 Millbank
London
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Dear Steve

Review of Metering Arrangements – Initial Findings and consultation of proposed metering industry remedies

I refer to your consultation published 17th December 2010.

Calvin Asset Management Limited is very pleased to respond to the information request.

By way of introduction, and as discussed previously with representatives from Ofgem; you may already be aware that M&G Investments, the investment arm of the Prudential, completed the acquisition of United Utilities' share in Meter Fit North East Limited and Meter Fit North West Limited on 1st October 2010. Both of the acquired businesses are now wholly-owned by Calvin Capital Limited which was specifically created, as an M&G Investments company, to effect the acquisitions. Meter Fit 2 Limited was already an M&G Investments business and has also been transferred into Calvin Capital Limited. Furthermore, Meter Fit 3 Limited has been created to provide a vehicle for a national MAP only provision and is again wholly owned by Calvin Capital Ltd.

In order to manage and develop the Calvin Capital businesses, a management company - Calvin Asset Management Limited (hereafter referred to as CAML) - was also established on 1st October 2010 and is wholly-owned by Calvin Capital. The full Meter Fit team has transferred to CAML and by the end of June 2011, the Meter Fit companies will own circa 3.8m meters all of which will be under the management of CAML. These are managed in combinations of MAM/MOP and MAP.

It is our intention to develop the business to build on the wealth of experience and knowledge in the UK utilities market. This will be achieved by continuing to specialise and invest in opportunities for meter asset provision and smart meter roll-out across the UK.

We are particularly keen to engage with Ofgem on the following points that we note are being covered by the review:

- Governance and structure of Gas and Electricity industry;
- Recognition of the changing markets, different market roles and barriers to investments;
- Commercial Interoperability; and
- Greater transparency in the provision of data to recognised market participants

If you require further clarification, please do not hesitate to contact me.

Yours faithfully

Kay Houghton
Commercial Manager
Calvin Asset Management Limited

1. Introduction to the Metering Market

Question 1

Do you have any views of the assessment of the current metering arrangements for the gas and electricity metering markets?

The Electricity market is working well as it recognises that the MAP and MOP functions operate independently which provides transparency of data and asset visibility via access to the industry central database ECOES. It also recognises the commercial relationship between MAP and Supplier for the recovery of meter rentals both on initial installation and any subsequent change of supplier event.

In comparison, the current Gas metering arrangements are working but are not comparable to Electricity. The Gas metering market does not provide the same framework in which to operate because the MAM and MAP roles are not separated and are considered to be a ‘bundled’ offering thereby being co-dependant.

The mandated Gas RGMA changes, that will come into effect in June 2011 for MAM to MAP and MAM to MAM dataflows; will aid the level of asset visibility, however this information still falls considerably short of the transparency of data and asset tracking provided for in Electricity..

Furthermore, following the introduction of these new mandated flows, CAML has requested that SPAA monitor the use and effectiveness of these flows and hold regular reviews after introduction.

The availability of accurate data is critical to the meter asset provider and suppliers and asset visibility and accurate and timely dataflows are fundamental to the operation of those respective businesses.

2. Consumer Protection, Commercial Interoperability and Metering Agents

Consumer Protection
Question 1

Do you have any views on our assessment of consumer protection?

CAML recognise the importance of data and consumer protection. As a MAP only we have limited control or access to consumer data but where we have access to data we are mindful that the integrity of data is maintained. We welcome the work that is currently being undertaken by Ofgem in preparation for the Smart Meter rollout in this area.

Commercial Interoperability
Question 2

Do you have any views on our assessment of commercial interoperability?

We would concur with Ofgem's recommendation 2.26, 2.27, that the industry developments to improve data and information flows alongside commercial arrangements have improved commercial interoperability and therefore the requirement for a common framework agreement is not required by the industry.

As a MAP organisation that relies on the provision and transparency of data, we consider that enhancing the visibility of assets by the separation of MAM and MAP with the MAP data being help centrally, as in the Electricity market the MAP being registered as a valid market participant coupled with robustcommercial arrangements with each individual party would make the Gas market more effective; but in general we are able to work within the confines of the arrangements currently in place.

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Question 3

Please provide any evidence you have of meters that were removed unnecessarily due to incompatible commercial arrangements?

CAML's objective on change of supplier is to retain the asset on the wall by putting in place a variety of commercial arrangements agreed with suppliers across both fuels. Whilst we have achieved this objective, most commercial arrangements do not include a premature replacement charge; without this we are always open to the threat of our assets being removed.

CAML's commercial agreements on change on supplier are provided on a MAP only basis for Electricity, Gas commercial arrangements are usually predicated on a combined MAM/MAP provision which can cause the meter to be removed. Where a MAM is appointed to an asset that belongs to a 3rd party or if the MAM cannot identify the 3rd party then there is a possibility of meters being removed..

This threat is also present where commercial terms have not been formally agreed but generally we have found that very few of our assets have been removed on churn due to incompatible commercial arrangements.

Question 4

What are your views on whether a single commercial model is needed? If so, is this something that industry should seek to develop?

CAML concur with the recommendations in 2.26 and 2.27 that improvements to industry data, and information flows have facilitated commercial interoperability but CAML would support the standardisation of commercial requirements in Gas to match Electricity such as:-

a) Separation of MAM and MAP
b) Transparency of data; and
c) Provision for Data Tracking

As a MAP organisation that relies on the provision and transparency of data, a single commercial model is not required if the provision of data is such that commercial interoperability can be achieved. In general we are relatively comfortable with the arrangements currently in place.

Metering Agents
Question 5

Do you consider the implementation of UNC297 to have resolved issued relating to asset visibility in gas metering?

CAML welcomes the implementation of UNC297 but notes that it only provides an enhancement of data which was already commercially available.

The justification for the implementation of UNC297 was on the basis that "it would bring Registered Metering Applicants (RMA) in line with Electricity; which already provides for Meter Operator and Meter Asset Provider access to central meter asset information via an online information system (ECOES)".

As a MAP we welcomed this UNC change initially but on further investigation CAML were advised by the Joint Office of Gas Transporters in July 2010 that;

> "The MOD draws parallels with the electricity industry in relation to the Meter Asset Manager information provisions only, although it does state that the electricity industry permits access to MAPS. It is not the intention within MOD 297 to extend the information provisions to MAPS, primarily as there is not a registration scheme operated by the Transporters which aligns a MAP to a meter point as there is with the MAM."

CAML welcome the implementation of UNC297 as a MAM and the enhanced visibility of its asset data it provides but notes that the provision of data to the MAP is an absolute necessity for effective commercial operability in Gas.

Question 6

Are there any specific aspects of the Review of Gas Metering Arrangements, baseline data flows that you consider need to be reviewed?

The RGMA flows to be mandated in June 2011 – MAM to MAP, MAM to MAM will facilitate the provision of data relating to the MAP, however as the Gas market is still a 'bundled' service provision there is a degree of nervousness among MAPs as to the accuracy of data that will be passed on these flows; especially on secondary churn.

As there is no central registration for the Gas MAP and, through discussions at SPAA it is generally accepted that it is highly likely that the MAP ID to be populated in the new flows will not in all cases be populated with the correct MAP ID. This is because the MAM is generally assumed to be the MAP. If the dataflow is populated with the incorrect MAP ID then the MAP will lose visibility of the asset and lose the revenue stream from the asset. We have asked SPAA to monitor this position going forward.

It would be preferable for the MAP to be held on a central database and for the Supplier to have visibility of the MAP ID as happens in Electricity. Both these measures provides a transparency of data to track assets and allows the MAP to put in place the commercial arrangements to prevent any loss of revenue or stranding of the asset.

3. Vertical Integration and Network Companies' Obligations
Question 1

Do you agree with our assessment that the MPOLR requirement remains with GDNs for dumb meters?

CAML agree that this is the best option for dumb meters; lowering the risk to the market. We would expect this to be reviewed once Smart Roll Out is implemented.

Question 2

At what point of the smart meter rollout would be an appropriate time to remove the MPOLR obligation on GDNs?

CAML would expect that a review of this provision is undertaken at regular intervals to determine the use of the provision and make appropriate recommendations on the timescale for the removal of MPOLR so that smaller suppliers are not dis-advantaged by its removal

Question 3

We intend to place a Licence Condition on suppliers for domestic credit meters (DCM) and pre payment meters (PPM) to ensure that MPOLR is used in cased of genuine last resort. Do you consider this to be an appropriate solution to the apparent misuse of MPOLR?

CAML concurs that the proposed licence condition outlined is a sensible approach for applying the MPOLR rules. The placing of a licence condition based on the principle that existing commercial routes to provide the provision of meters should be exhausted before invoking MPOLR, should ease the volume of PPM exchanges being performed by the GDN and restrict Suppliers taking advantage of the preferential rate offered under the price control whilst maintaining the service for genuine need.

Question 4

Small and/or out of area suppliers have expressed concern regarding the availability of dumb electricity meters. Are these concerns valid? If so, please explain (and quantify if possible).

As a MAP and MOP we have experienced no difficulty in sourcing dumb electricity meters.

Question 5

Would a non-discrimination obligation on suppliers be an appropriate response to concerns related to access to smart meters during the smart metering rollout? If so,

a) Would this obligation be better placed on the Big 6, or on all vertically integrated suppliers?

CAML believes that any non-discrimination obligation, if implemented, should be placed on all the vertically integrated suppliers. By placing this obligation on vertically integrated suppliers we would expect that the licence condition would follow the principles set out for the provision of MPOLR; and that all commercial routes should be exhausted before using this provision.

b) Should the obligation comprise meter provision services, metering installation and maintenance services; or both?

CAML would expect this to exclude meter provision, however if meter provision were to be included we would expect restrictions to apply so that logistically the service offered by the supplier would be with one MAP provider.

c) Could such an obligation be overly burdensome?

If the service is offered on the same basis as MPOLR and all other commercial routes have been exhausted by the Small supplier then we would not expect this to be overly burdensome during the Smart meter rollout.

d) Should the obligation contain a sunset or review provision once the rollout of smart meters has been completed?

Yes, there should be a sunset provision. CAML supports strategic reviews as a sensible approach throughout the rollout period and beyond.

Question 6

Are there any unintended consequences of introduction a non-discrimination obligation on suppliers offer metering services on equal terms; or consequences that we have not considered?

Although CAML would be supportive, as a last resort, of such an obligation, Ofgem does need to consider the potential for discrimination to companies like CAML who operate in the competitive metering market. A non-discrimination obligation must genuinely be last resort to avoid market distortions, as happened with PPM meters. This could hamper the development of companies like CAML.

Question 7

Do you consider MPOLR is required for smart meters?

If the provision for services is made on vertically integrated companies we do not envisage that the MPOLR service would be required for Smart meters.

4. Gas Metering Price Controls

CAML, in previous responses, has stated our concerns over the price controls for Gas Metering. While the price control on PPM remains it is difficult to compete on price in this market and we would welcome the removal of the price control.

Question 1

Do you agree that legacy meters (credit and prepayment) should remain under price control?
Given that legacy meters are predominantly a sunk cost, we agree that the majority of these meters have substantially depreciated and we would agree that given the onset of the smart metering roll out the legacy meters should remain under the price control.

However, we would wish to make the following points in relation to legacy meters and some concerns that we believe still persist in the background within the market.

NG meters are split into 3 categories

1 – Category 1 Legacy Meter is a Legacy Meter provided and installed before 1st October 2000
2 – Category 2 Legacy Meter is a Legacy Meter provided and installed on or after 1st October 2000
3 – New and Replacement meter is defined as a meter provider and installed on or after 1st January 2004

NG are dominant in the market for the supply of domestic-sized gas meters (as noted in the Competition Commission ruling), and this has been entrenched by the additional barrier to market entry and expansion by the price control and the bundling of the charges for rental and maintenance.

1. First, the fact that a maintenance visit very often leads to a meter replacement means that providing this service is a good route to market for the Commercial Meter Operators, the bundling of maintenance with meter provision by NGM has made this impossible as CMO are not allowed to work on NGM meters for the purpose of providing maintenance.
2. Secondly, for every meter replaced by NGM on maintenance visit, the demand for CMO meters in future is correspondingly reduced or delayed given the long life of meters.

While the MSA's are now been reviewed and renegotiated, there does de-facto remain a dominant market provider with all the resultant influence.

Question 2

What is the impact on customer if we reset price controls for:

(a) PPM meters?
(b) DCM meters?

We believe that in the era of smart meters, customer management issues, including vulnerable customers, should be dealt with at the supplier level utilising the functionality of smart meters. The transition from dumb to smart needs to incorporate the removal of price controls from the metering level to the supplier level.

Question3

We seek views on whether there is any advantage in setting a cost reflected price cap for new and replacement dumb meters, which also accounts for unnecessary meter replacement?

(a) We are also interested to understand whether an allowance beyond a purely cost-reflective level would encourage competition?

We believe that the metering activity should be fully cost reflective to support the competitive market. Furthermore, price controls for the regulated market does not create the correct cost messages to encourage a sustainable competitive market.

(b) In the transition to smart metering, what consideration should be taken into account when setting a new price control tariff for dumb meters?

As has been mentioned, we do not believe there should be price controls for any metering in the new smart world. Smart functionality should cater for credit management.

Question 4

What is your view on the total costs for the provision of PPM and how are they passed on to customers?

As we have mentioned in our response, we believe that smart functionality should be able to deal with the future treatment of cost allocation of PPM meters. The metering activity should be cost reflective, rendering cost messages to be managed at the supplier level. There should therefore be a transition phase from the current mechanics to the smart environment managed by suppliers.

Question 5

What are the likely tradeoffs between the implications for the price for providing PPMs, especially for vulnerable customer's verses the incentives for PPM smart rollout and cost reflectively? For example, if we choose not to review the PPM tariff cap, would this weaken and slow the case for investing in Smart PPMs?

We would propose that no price controls are in place for any meter types, including PPMs. We believe that sufficient functionality should reside in the smart functionality of smart meters to cater for the needs of vulnerable customers. In order to ensure a level playing field for the competitive metering market, we believe that the metering investment should be on a cost reflective basis.

Question 6

We are aware that National Grid Metering is renegotiating the MSA contracts.

(a) Can you please indicate what your metering arrangements are likely to be going forward?

As a MAP/MAM/MOP, we are not aware of the outcome of the negotiations between NGM and the suppliers.

It is our intention to continue to invest in the developing smart metering market in the same way as we have done since 2002, as a commercial metering operation. This is based however that the metering market will continue to evolve within a competitive framework.