



Response to Ofgem Review of Metering Arrangements - Initial Findings and Consultation on Proposed Metering Industry Remedies

In general we agree with Ofgem's assessment of the current market for competitive metering services.

We are concerned however that the market environment for services on IGT networks and the detrimental affect that this has for energy supply competition and consumers has been left out of this review. When the initial consultation on metering arrangements was launched by Ofgem it was suggested that a specific consultation regarding IGT issues would be issued by the end of 2010. This does not seem to have materialised and we are concerned that this issue and the implications for almost 1 million consumers are being ignored by the regulator.

We do not agree with the suggestion that new obligations are required for some or all energy suppliers to provide non-discriminatory cost reflective metering services. There are a number of independent metering service providers at the moment and it is premature to second guess how a market will evolve.

There maybe a number of unintended consequences of introducing an obligation on energy suppliers with regard to the provision of metering services that may stifle the competitive market and call into question its viability.

We would not advocate the removal of meter operator of last resort (MOPLR) obligations or existing price controls on network metering providers as these may have short term consequences for consumers. The roll out of smart metering will bring about the required evolution and development of the competitive gas metering market.



Answers to specific questions within the consultation:

Chapter One

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

Gas Metering Market

We agree with Ofgem's assessment of the gas metering market where competition remains at an early stage of development. The prolonged uncertainty surrounding the outcome of the MSA appeals process has not helped the market to evolve.

However the impending introduction of supplier led smart metering has led to a recent impetus to the development of a competitive gas metering market.

The cross subsidy of regulated network business provided gas pre-payment meters has stifled the development of a competitive market for these types of meters and services. There is also no real current alternative to the incumbent monopoly gas PPMIP service provider.

Electricity Metering Market

Again we agree with Ofgem's assessment of the current competitive market for domestic electricity metering services. Competition is more active than in the gas metering market although recently activity has been significantly curtailed with demand for services being subdued in the period prior to the introduction of smart meters. This is an understandable evolution with parties not wishing to limit their exposure to asset stranding and unnecessary costs.

Chapter two

Consumer Protection

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

We agree with the findings of the Ofgem review that the removal of electricity metering price controls has not had an adverse affect upon the quality of metering services provided to consumers.



Commercial Interoperability

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

We agree that failure to agree commercial terms should not lead to meters being exchanged when a customer changes energy supplier. However, we also believe this is very unlikely as in practice the supplier need never pay more than is reasonable (there being no restriction on the supplier's use of the meter).

Competition in metering services has been actively encouraged for over ten years and is the preferred methodology selected by the Government for the deployment of smart meters in the future. It may therefore be inevitable in a competitive market that suppliers and Meter Asset Providers (MAP) or Meter Operators (MOP) simply can not agree on contract terms. A MAP might then seek recourse to the courts to secure payment of use of its assets and in theory a supplier might then prefer to replace meters rather than pay these terms. We are not aware of this happening.

Our experience to date shows that energy suppliers are comfortable in paying reasonable rental costs for metering services but the difference in treatment of costs has led to very few contracts for services actually being agreed. We agree with Ofgem's assessment of the potential factors leading to a difference in view. We have found agreement on the treatment of the installation costs of a meter, the costs of communication and acceptable termination fees for Automated Meter Reading (AMR) meters has proved particularly challenging to resolve.

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

Acting as an energy supply business we have not actively removed any meters because we have not been able to agree commercial terms with the incumbent meter agents.

Acting in our role as a Meter Asset Provider we have no experience to date of other metering agents (MAP/MoP/MAM) removing any of our meters as a result of not being able to agree commercial agreements with us.

We have experienced problems attempting to install smart meters within customer's homes on IDNO/IGT networks. The IGT have installed gas meters on site that are not compatible with smart electricity meters and this has led to issues with meter installations being aborted and additional costs being incurred.



This issue has arisen due to the lack of metering competition upon IGT networks and the lack of appropriate commercial arrangements that allow for suppliers to be responsible for the provision of gas meters for new connections.

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

We agree with the assessment that it would be inappropriate to take action now with reference to the current metering market but that some regulatory intervention would reduce the risk that once smart metering is established the issue of commercial interoperability does not adversely affect consumers and the competitive energy supply market.

We recommend that MAPs charges are transparent to the gaining supplier as part of the change of supplier process. i.e. make these available to the gaining supplier in such a way to enable the gaining supplier to understand what is included in the charges. The transparency this would bring would allow scrutiny of charges and help ensure that excessive rates are not charged by MAPs and consumers are protected from aggressive pricing practices. Gaining suppliers would then have a benchmark to challenge rates as being too high.

MAPs would need to ensure that their standard terms and published rental rates were fair and reasonable i.e. that they had not been unduly cautious in assumptions of meter lifetime or unduly accommodating in their initial contracting.

We would like to see the development of this regulatory requirement occurring at the outset of the implementation of smart metering. It should form part of the initial requirements of the Smart Energy Code (SEC) and be part of the initial delivery of Data Communication Company (DCC) services.

The exact means of implementation will depend on the scope of the Smart Energy Code, but one method would be for suppliers to be required to make it a condition of contracts relating to meter installation for the MAP to publish its terms at change of supplier.

If this condition in the Smart Energy Code also required the published terms to be fair and reasonable¹, suppliers would have to consider the relationship between the terms they had negotiated for themselves (as installing supplier) and the MAP's standard terms. This could constrain contract innovation, but on balance we believe is a useful means both of giving other suppliers confidence in standard terms and of ensuring suppliers are fair and reasonable in challenging the standard terms (see next para). We recommend that such a condition has a sunset clause and so is only made permanent if shown to be effective and without adverse side effects.

¹ We will give further consideration as to how such a condition could be implemented in our response to the Spring Package.



One critical situation is where a supplier finances meter installation and is faced as a gaining supplier with standard rental charges which are higher than expected (as they include amortised installation costs). The supplier may not pay these charges. Conversely, a supplier who has contracted with a MAP to finance its meter installation could reasonably seek not to avoid paying the charges. We believe resolution of this issue is best left to the market, though note that one possible outcome (a termination fee on a loss of customer) would seem to be a reasonable balance between the different parties' interests.

Metering Agents

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

We believe that the introduction of UNC Mod 297 should assist with the resolution of issues regarding gas metering visibility but it is too soon for the implications to be seen in practice.

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

The key concern for us regarding RGMA are IGT; their refusal to utilise the baseline data flows, their lack of adherence with MAMCoP and SPAA and the inaction taken by Ofgem with regard to the abusive provision of services by monopoly network providers. We believe that this has led to higher costs and significant service issues for consumers on these networks that now number close to 1 million consumers.

We would like to see action taken by Ofgem to support and lead the resolution of the work started by shippers under the IGT UNC to address these issues and which is currently being stalled by deliberate action by IGT to restrict competitive metering arrangements on their networks. This is particularly pressing considering the forthcoming obligation to install smart meters for all customers.

Chapter Three

1. Do you agree with our assessment that the MPOLR requirements remain with GDN's for dumb meters?

We agree with the suggestion that it would be appropriate for the MOPLR requirements to remain in place with the GDN for dumb metering.



2. At what point of the smart meter rollout would be an appropriate time to remove the MPOLR obligation on GDN's?

It would be appropriate to remove the requirement for MPOLR on the GDN once an obligation is in place for energy suppliers to install gas and electricity smart meters that meet the required functional specification. After this date the commercial arrangements and alternative service providers should be in place to allow this obligation to be removed.

It may be prudent to allow the market to evolve for a period of time before relaxing the requirement on GDN.

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 only used in cases of genuine last resort. Do you consider this to be an appropriate solution to the apparent misuse of MPOLR?

Without the removal of the cross-subsidy between regulated PPM and DCM meters there is little incentive or option for 3rd party metering providers to offer these types of services. Therefore gas suppliers have little option or commercial logic to choose any other provider of services for PPM. Simply introducing an obligation as proposed will not alter the underlying commercial realities.

It would be more effective to remove the cross subsidy arrangements and encourage the development of a viable competitive gas metering market before considering the licence condition proposed in this consultation.

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

We have not experienced any issues to date with obtaining electricity metering services from agents in areas outside the traditional areas of the former Regional Electricity Company businesses that E.ON has acquired in the past.



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?**
- b. **Should the obligation comprise meter provision services; meter installation and maintenance services; or both?**
- c. **Could such an obligation be overly burdensome?**
- d. **Should the obligation contain a sunset or review provision once the rollout of smart meters has been completed?**

It is not clear exactly what form of non discrimination obligation is proposed. There is a substantial difference between:

- An obligation to offer services to other suppliers (and for the offered terms to be cost reflective), and
- An obligation that if services are offered, then they are non-discriminatory between suppliers

We consider each in turn.

Absolute obligation to offer services

We presume Ofgem's hypothesis would be that there will be insufficient choice of unaffiliated meter providers if all major suppliers are vertically integrated (in a geographic region).

The evidence is quite to the contrary. There are currently a significant number of independent metering agents. We are aware of the following organisations that are active in the market:

National Grid Metering, Onstream, Lowri Beck, Western Power Distribution, United Utilities, bglobal, G4S, Siemens, UPL, Inexus, GTC, ESP, Exoteric Gas Solutions, Imserv, Corona Energy, Gazprom Global Energy Solutions, UK Smart Metering Group

Moreover the one barrier to SME metering agents operating in the Domestic market (the need to service prepayment meters) will disappear with smart meters.



Service providers will be able to gain business from Big 6 suppliers outside of their geographic area of any vertical integration, larger I&C suppliers and smaller suppliers (in any market).

Given this level of choice, there would need to a full assessment of the metering market to conclude that there is consumer detriment² and that an obligation is appropriate. Such an assessment would also need to consider the impact of any obligation on competition between vertical integrated suppliers as it would undermine a business model based on improving services to customers through systems integration (e.g. appointments booking) and reducing costs by removing contractual overheads. We also doubt the practicality of an obligation as the additional costs of developing third party services would be substantial, so that any cost-reflective service would be unattractive, compared to the low cost models of some of the agents identified above.

Obligation that if services are offered to one supplier, they will be offered to others

The hypothesis here is that larger suppliers might withdraw from the competitive metering market in areas where they are not vertically integrated, by entering into reciprocal arrangements.

An example might be if supplier A provided a metering service in the South-East and Supplier B provided one in the North of Scotland. Neither party may have market power in the geographical area, but a reciprocal agreement would reduce opportunities for independent metering providers. However, as noted above, the evidence is of a large number of metering agents and although it may be regarded as unfair that, in this example, supplier A can obtain a service that a smaller supplier may not, unfairness is not a rationale for what would be a major intervention in the metering market.

We believe it may be appropriate to make an exception if supplier co operate in an area-based roll-out of smart meters, for instance to secure community engagement. We agree that in such a situation cooperation should be available to all suppliers, although would expect this to happen without need for a licence obligation.

² The assessment would also need to put any detriment in context. Higher metering costs may, for instance, be outweighed by the cost saving to smaller suppliers of factors such as exemption from CERT.



Conclusion

For the reasons stated above our view is that there is no requirement for a non discriminatory obligation on suppliers.

However, if such an obligation were imposed our response to Ofgem's questions is as follows;

- a) There should be no obligation. If there was an obligation general principles would suggest that it would only be where a supplier has a substantial market share. However, this would be complex to apply given that metering 'geography' does not necessarily match distribution areas. It would be more practical, albeit as we have argued, inappropriate, for an obligation to be on any larger supplier, but only in those areas where they have a local workforce.
- b) An obligation would only be for meter installation and only for initial roll-out.
- c) The obligation would be burdensome in requiring (cost-reflective) quotes to be prepared for any supplier and in potentially managing challenges over cost allocation, although relatively small in context of the overall smart meter programme.
- d) The obligation would fall away in 2020.

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

There could be a number of unintended consequences of introducing a requirement on a limited number of suppliers to offer non-discriminatory cost reflective metering services. These include:

Increased prices for metering services – cost-reflective prices from vertically integrated larger suppliers should include contract and other overhead costs³. These could act as a marker for competitive metering providers.

Reduced metering competition – if some I&C, SME or smaller domestic suppliers purchase services from vertically integrated suppliers, there will be less opportunity for independent meter agents.

³ Alternatively, the regulatory burden of justifying cost assessments may led to services being under-priced – weakening metering competition



The threat of this occurring may reduce the incentive for investment in a differentiated workforce, new business processes and IT systems.

Reduced new entry to the metering market – arising from the reduced expectation of business (as above) and from a perceived lack of consistency in regulatory policy (if any obligation is not based on a robust market assessment).

7. Do you consider a MPOLR is required for smart meters?

There is insufficient evidence to suggest that there will be a requirement for a MOPLR in a smart world. If a number of existing meter operators were to exit the market or the number of providers working within in a particular region were reduce to the point where suppliers could not obtain services then it would be appropriate to look to introduce an MPOLR. Our preference would be for any future MPOLR service obligation to be provided by the incumbent network provider whereby existing regulatory safeguards and cost recover measures could be applied.

Chapter Four

1. Do you agree that legacy meters (credit and prepayment) should remain under price control?

With the widespread roll-out of smart meters imminent we believe that it would be inappropriate to remove the existing price controls. Although this may spur developments of a competitive gas metering market it would also have consequences for consumers of gas pre-payment meters who would undoubtedly see higher short term costs.

We believe that smart metering should bring about the required evolution of the gas metering market and therefore the short term impact on some consumers can not justify the removal of the existing price controls.

2. What is the impact for customers if we reset price controls for **a. PPM meters?** **b. DCM meters?**

We believe that consumers with pre-payment meters would see higher costs in the short term if the cross subsidy were to be removed.



Consumers with credit meters may see a short term gain from reduced prices. However the large numbers of credit meter customers combined with the likelihood that energy suppliers and agents would reduce as far as possible any changes that resulted in a new non-smart meter being installed would suggest that the benefits would be negligible and unlikely to lead to any cost reductions for consumers.

- 3. We seek views on whether there is any advantage in setting cost reflective price cap for new 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?**

As it seems likely that the specification for smart meters will be completed by the end of 2011 there would not seem to be any logic in introducing changes now as they would have limited affect.

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

Setting price control tariffs for non-smart meters should take into consideration the numbers of non-smart meters, the implications on energy supply competition and the affects on consumers.

- 4. What is your view on the total costs for the provision of PPM and how they are passed onto customers?**

Prices for pre-payment meters vary between gas and electricity and by meter type and due to the PPMIP service provider. The costs we incur for the provision of PPM for customers is passed onto our customers with particular regard to Supply Licence conditions 25A and 27.

- 5. What are the likely tradeoffs between the implications for the price for providing PPMs, especially for vulnerable customers versus the incentives for PPM smart rollout and costs reflectivity? For example, if we choose not to review the PPM tariff cap, would this weaken and slow the case for investing in smart PPMs?**

All smart meters will have the functionality to operate as Pay As You Go metering with the option to disable or load limit the supply to a premises.



If the existing cross subsidies were to remain for gas PPM it would not affect the incentives for energy suppliers to invest in new tariffs or to introduce smart metering to help manage debt issues with consumers.

Smart metering offers a number of benefits over existing PPM technology to energy suppliers and these would be considered at the point when a meter replacement was needed.

An obligation to install or replace any meter with a meter meeting the smart specification from a certain date within the SEC would remove the option for suppliers to choose between an existing PPM and a smart meter.

- 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?**

Discussions with National Grid Metering (NGM) are continuing with regard to the future of the MSA contracts and have yet to reach a conclusion.