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Dear Steve

Review of Metering Arrangements – Initial Findings and Consultation on Proposed Metering Industry Remedies

Thank you for the opportunity to comment on your initial findings of you review of metering arrangments. We welcome the opportunity to respond to this consultation and Ofgem's initial proposals on the range of issues we have previously raised in this area.

Our response focuses on the issues relating to gas and in particular your proposals surrounding the Meter Provider of Last Resort (MPOLR) obligation for gas distribution networks.

1. MPOLR Obligation

It is disappointing that almost 10 years after opening the market to competition for the provision of gas meters Ofgem deems that competition is not yet developed enough to remove the obligation on networks to support this process as supplier of last resort for domestic metering assets.

We do not believe that the assessment of the overall use of the MPOLR service has been adequately factored into this assessment. Looking at the high level figures for the use of the service within NGN's region would indicate that it is not a service that gas suppliers choose to access because they suffer from a lack of available alternatives within the competitive market.

NGN installs 2500-3000 domestic meters each year under its MPOLR obligation. This represents only 0.001% of the number of meter points within our region. Furthermore, the use of this service is almost exclusively limited to a single major gas which has significant resources and would have no difficulty in finding a meter supplier, agent and asset manager.

Given that NGN has contractual relationships with all suppliers for the provision of the MPOLR service, the decision by the majority of gas suppliers not to use this service and instead rely on their own commercial arrangements does not support Ofgem's position or the approach taken by the main user of NGN's MPOLR service.

The issue of scale is also relevant when considering Ofgem's view that the MPOLR service is required to continue until the rollout of the smart metering programme is largely complete. The energy suppliers will by 2013 be well into the first phase of the delivery of the smart meter rollout programme and will have resources and plans in place to deliver 2.6 million gas smart meters in NGN's region (approximately 500,000 meters per year by 2018). If Ofgem are satisfied that suppliers carry a specific obligation to deliver this size of programme, a MPOLR obligation on networks to provide a maximum of 3000 dumb meters per annum during this time is not required. An obligation on suppliers that any new or replacement domestic meter required during this period must be a smart meter is surely a more efficient process and will aid significantly in the speed of rollout of smart meters.

Given this limited use of the service in terms of overall meter numbers and in particular the number of suppliers, we do not support Ofgem's view that the MPOLR is key to supporting the current metering market and should be retained until a significant element of the smart metering programme has been delivered.

In the interest of efficiency and providing the correct incentives on suppliers to deliver the smart metering programme on an appropriate timescale the MPLOR should be removed from network companies by March 2013 at the latest.

2. Gas Metering Price Controls

Notwithstanding the fact that we do not support the proposal by Ofgem to retain the MPOLR obligation, we have some issues with Ofgem's proposed treatment of the gas metering price controls.

a. Legacy Meters

The arguments presented for the continuation of price controls for legacy meters is incorrect, particularly for the GDNs created in June 2005.

NGN acquired no meters at the time sale and hence all meters owned by NGN have been installed in the last five years. This means that currently NGN's metering assets have depreciated on average only 2.5 years. Domestic Credit Meters (DCM) are depreciated over 20 years and Domestic Prepayment (PPM) Meters over 10 years. With the proposed continuation of the MPOLR obligation NGN's metering asset stock will still have a significant outstanding economic life and will not have been fully depreciated by the time they have been replaced as part of the smart metering programme. Exposing NGN to a significant stranding risk as a result of the smart metering programme.

The statement that all legacy meters will be fully depreciated by the time smart meters have been implemented is therefore incorrect for NGN. Your proposals do not address this issue.

The retention of unchanged price controls on legacy meters does not address the key challenge that NGN faces with the current arrangements. That is the tariff caps include an inherent cross-subsidy from the provision of domestic credit meters to prepayment meters. This cross-subsidy was based on an assumed ratio of the different types of domestic meter back in 2001. NGN currently have a ratio of prepayment meters (53%) which is much higher than that assumed within the tariff caps and across the national metering stock as a whole. The result is that the level of the tariff caps are not sufficient to cover the full economic costs of the provision of domestic meters. This impact is reduced for those parties who have a larger portfolio of meters and contracts for the provision of meters.

Additionally, the tariff caps are introducing distortions to the market. Energy Suppliers who have access to a range of providers to meters may aim to optimise their portfolio by choosing the meter providers that minimise their overall costs. The existence and level of the tariff caps is distorting the market for the provision of different types of meters and potentially limiting the further development of competition in certain market sectors.

Your proposals to leave arrangements for legacy meters unchanged has ignored the above issues and cannot be supported by NGN. If tariff caps are to remain, then the guiding principle must be that as networks are forced to provide meters by the licence they should be fully compensated for stranding for both new/replacement meters and legacy meters.

b. Domestic Credit Meter Price Controls

Ofgem's assessment of the issues affecting domestic credit meters are correct. With a continued MPOLR obligation the smart metering programme will mean that all new and replacement meter assets installed will not have been fully depreciated and recovered through charges before they are replaced. Hence, tariff caps must be adjusted to account for this stranding risk.

We therefore agree with Ofgem proposals to review the tariff caps for DCM to account for stranding risk.

However, in applying this principle with respect to DCM, NGN believes that the same principle must be applied where there is a significant stranding risk on other meters such as legacy meters and new/replacement PPMs.

c. Domestic Prepayment Meter Price Controls

Ofgem's position in this area is slightly confusing, particularly given the principles they have applied with respect to new/replacement DCMs as outlined above.

NGN's position is clear. The current tariff caps are set at a level which is both below market costs and ensures that the full costs of providing this service cannot be recovered. The result being that NGN and its shareholders are being asked to cross subsidise directly gas suppliers and their customers who chose a PPM.

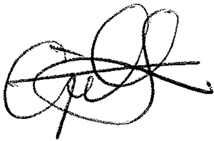
This is not consistent with the Ofgem or NGN's obligations and should not be allowed to continue. The PPM price control must be reviewed alongside the proposed review of DCM and include both new/replacement and legacy meters.

We do not agree that the removal or reassessment of these Tariff Caps would have a detrimental effect on the prices to PPM customers when considered in relation to the obvious incentive this would place on suppliers to roll out smart metering as a priority to affected PPM customers.

Finally, whilst welcoming the recognition of ensuring appropriate use of the MPOLR service, we do not feel that that the introduction of a new licence condition on suppliers to be able to demonstrate that they have exhausted commercial routes before approaching a GDN for a meter will be robust enough to alleviate the current situation. There would be challenges in qualifying where the breach of this licence condition may have occurred and given that such an assessment would need to be ex-post, teh additional costs already incurred by the GDNs.

If you would like to discuss the issues raised above in more detail, or require any additional information then please do not hesitate in contacting me.

Yours sincerely



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