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14th February 2011

Dear Steve

### **Review of Metering Arrangements (ROMA)**

Please find enclosed our response to the ROMA consultation.

Our priorities remain as previously expressed in the ROMA, namely;

- i) Interoperability (commercial and technical)
- ii) Considering of fit-for-purpose metering functionality in the world to 2020 and beyond
- iii) Managing the transition to smart

Our subsidiary points are;

- iv) Migration to standard commercial frameworks for metering is desirable and should be industry led rather than prescribed by the regulator in terms of standard contract formats
- v) Regulatory oversight of Meter Asset Provider (MAP) rental charges is desirable
- vi) Gas metering unbundling to MAP and Meter Operator (MOP) should be facilitated
- vii) Unnecessary stranding should be avoided
- viii) Asset tracking and triangulation should be facilitated
- ix) The requirements for safety inspections and policy exchanges should be revised
- x) Independent Gas Transporter (IGT) metering arrangements remain unsatisfactory
- xi) Gas and electricity processes should be aligned as much as possible
- xii) Last resort obligations should remain with the Distribution Networks (DNs), although the Meter Provider of Last Resort (MPOLR) should only be to provide “dumb” credit meters
- xiii) Satisfactory arrangements for emergency metering services should be reviewed (UMeTS in electricity and PEMS in gas)
- xiv) Satisfactory commercial arrangements for gas meters following the National Grid Metering Competition Appeal Tribunal outcome should be reviewed

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This response is not confidential.

Yours sincerely

A handwritten signature in black ink, appearing to read "Chris Harris".

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## Chapter: One - Introduction to the Metering Market

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

We concur broadly with your assessment.

Our priorities remain as previously expressed in the Review of Metering Arrangements (ROMA), namely;

- i) Interoperability
- ii) Considering of fit-for-purpose metering functionality in the world to 2020 and beyond
- iii) Managing the transition to smart

Our subsidiary points, which remain, are;

- iv) Migration to standard commercial frameworks for metering is desirable and should be industry led rather than prescribed by the regulator in terms of standard contract formats
- v) Regulatory oversight of Meter Asset Provider (MAP) rental charges is desirable
- vi) Gas metering unbundling to MAP and Meter Operator (MOP) should be facilitated
- vii) Unnecessary stranding should be avoided
- viii) Asset tracking and triangulation should be facilitated
- ix) The requirements for safety inspections and policy exchanges should be revised
- x) IGT metering arrangements remain unsatisfactory
- xi) Gas and electricity processes should be aligned as much as possible
- xii) Last resort obligations should remain with the Distribution Networks (DNs), although there is now a question of whether DN should be required to be Meter Provider of Last Resort (MPOLR) for smart rather than just credit meters
- xiii) Satisfactory arrangements for emergency metering services should be reviewed (UMeTS in electricity and PEMS in gas)
- xiv) Satisfactory commercial arrangements for gas meters following the National Grid Metering Competition Appeal Tribunal outcome should be reviewed



## **Chapter: Two – Consumer Protection, Commercial interoperability and Metering Agents**

*Question 1: Do you have any views on our assessment of consumer protection?*

Yes – There are consumer protection issues for PPMs and Smart.

For Domestic Credit Meters (DCMs), the consumer protection issues relate to metrology and safety. Neither of these will be affected significantly by ROMA.

For Prepayment Meters (PPMs), in addition to metrology and safety, there are issues of access to payment infrastructure, protection from fraud, meter maintenance, installation on Independent Gas Transport (IGT) networks.

There currently exist Prepayment Infrastructure Provision (PPMIP) in gas (Siemens) and electricity (Itron) with national coverage. Since supplier hosted PPMIPs have migrated to non-supplier national coverage providers, then we do not anticipate that ROMA will have any direct impact prior to smart.

In smart, there is likely to be an array of technical infrastructure solutions, and an array of consumer facing solutions both in home (meter/IHD position and interaction) and out of home (National Service Providers, mobile top ups, etc.). Planning in consumer protection will be very important, and will affect, for example, meter location, failsafe contingency, the National Service Provision of PPM vending outlets, communications to and from the meter and the In Home Display, and failsafe mechanisms to ensure a short interval between payment and signal receipt at the meter. These issues are likely to be complex, and we believe that as they appear in the smart programme, that the ROMA framework will be able to pick up some of the issues. At this point, we await further definition of the technical activities of the smart DCC.

Consumers will continue to require a seamless service in emergency metering. Consumers are not generally aware of the division of the industry into separate components and commonly expect a single service for many aspects of metering and all aspects of safety. The general difficulty in determining the metering or safety issue and the subsequent requirement to keep the consumer on supply does lead to some difficulties in managing Gas Post Emergency Metering Services (PEMS) and Electricity Urgent Metering Services (UMETS). This has been challenging enough for traditional metering. Going forward, one possibility is that PEMS/UMETS should involve a make safe situation with a traditional meter, and then the supplier should be responsible for the dumb-to-smart swap. We recognise that this entails two visits but believe that this may be the most expedient way to manage safety. At the same time, we believe that PEMS/UMETS contracts should have regulatory oversight to ensure that charging is fair. The resolution of this issue is likely to depend on the outcome of MPOLR and the standardisation (or not) of commercial frameworks.



*Question 2: Do you have any views on our assessment of commercial interoperability?*

Yes – we support an industry led migration to a standard framework for contracts

In electricity, we support the migration towards more standard frameworks for contract structures, provided that innovation and competition is not stifled. We also support better arrangements for meter, customer and supplier churn.

In gas, commercial interoperability remains a long way off. We support standard frameworks for contract structures, including the separation of MAP and MOP components of bundled services.

We believe that formal regulation of a prescribed contract format would be unnecessarily restrictive and would not facilitate a migration towards a more standard framework.

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

We have not removed credit meters for reasons of incompatibility of commercial arrangements. Since the visit costs more than the meter, it would never be sensible to do so.

Whilst it is our internal policy not to remove meters from walls as a policy, seeking instead to agree suitable contractual terms with providers, we cannot accept the application of disproportionate stranding risk levels being applied, for example if we gained a customer for whom the existing meter had an onerous stranding clause with the MAP.

We have removed prepayment meters when the Prepayment Infrastructure Provision (PPMIP) is not effective for us or is being phased out. It has been our practice that if we gain a customer with such a meter that we replace it. This could be regarded as a technical or commercial interoperability issue.

Historically we had to replace electricity PPMs when the TaleXus platform became the de facto market standard.

We should note also that in some instances we are effectively prevented from exchanging meters due to incompatible commercial arrangements. Prepayment meters on Independent Gas Networks are a case in point.

On occasion we have replaced non standard multi-rate meters, whose tariff structures we cannot support, with standard multi-rate meters.



We have experienced circumstances in which we cannot support the tariff structure of the incumbent meter on a customer gain, or the meter cannot support a standard tariff structure. It is common to discover this after the change of supplier and hence risks a poor consumer experience in returning them to the previous supplier (for example using the Erroneous Transfer process). This category of issue is part technical and part commercial. For example, it may be possible to operate the meter in dumb single rate mode, or to provide a bespoke tariff and requisite settlement arrangements (Time Pattern Regime). However this is impractical.

*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?*

We support the migration of the majority of meters to a single baseline commercial model. This should be done by the industry rather than by regulation, although we do believe that regulatory oversight is required to ensure that frameworks driven by larger players do not have a market distorting effect.

We do not support the stifling of innovation or competition by the preclusion of adaptations of the standard model.

We believe that industry players could agree a standard model, and that regulation would not be helpful. Different fora could be helpful in enabling this (e.g. AMO, MAMCoP, ERA).

*Question 5: (Metering agents) Do you consider the implementation of UNC297 to have resolved issues relating to asset visibility in gas metering?*

It was a good start

UNC297 has been very helpful in supporting MAM-MAM and Change of Supplier and Change of Agent flows.

*Question 6: (Metering Agents) Are there any specific aspects of the Review of Gas Metering Arrangements baseline data flows that you consider need to be reviewed?*

The RGMA, the RGMA baseline, and the RGMA flows do not facilitate the separation of meter asset provision (MAP) and meter operation (MOP), instead bundling these into Meter Asset Management (MAM).

In addition, they do not facilitate the tracking of meters by MAPs.

The MAM to MAM flows are ineffective, particularly for change of supplier and change of agent.



The file flows were designed to be flexible in the holding of data. However, the relatively free format has resulted in poor exchange of necessary information. For example validation cannot be applied effectively for free format fields.



## Chapter: Three – Vertical Integration and DN Obligations

*Question 1: Do you agree with our assessment that the MPOLR requirement remain with GDNs for dumb meters?*

Yes

Removal of MPOLR whilst there remains a dominant player would have the effect of removing the commercial backstop for suppliers. This would increase dominance.

Since GDNs can choose to outsource their MAP activity, then MPOLR also creates an avenue for opening of competition in gas MAP. GDNs can separately outsource or in-house the MOP activity and hence this creates a potential avenue for competition as well as enabling unbundling.

*Question 2: At what point of the smart meter rollout would be an appropriate time to remove the MPOLR obligation on GDNs?*

Our view remains that smart meters best reside with the distribution networks, and that meters could be adopted into the networks.

On the presumption that suppliers will retain the responsibility to provide meters, then the advent of smart would appear to be the best time for the MPOLR practically to lapse. For example, MPOLR could be retained for dumb meters but not for smart.

We believe that advent (or not) of more competition in MAP and MOP activities in gas will indicate the ability (or not) to drop the MPOLR for DNs.

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

We do not oppose this suggestion in principle. However we would be interested to know how this might be tested, and what investments a supplier would be expected to make, for example in systems and processes.

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

No – We do not believe that the concerns are valid

We do not believe that there is an issue of dumb meter availability, whether it be due to a supplier's footprint density or its absolute size.





*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?*

No, but we do believe that regulatory oversight is desirable to ensure that discrimination cannot be practised by the imposition of costs and impediments to gaining suppliers as to deter them from making gains.

*Q5a) Would this obligation be better placed on the Big 6, or on all vertically integrated suppliers?*

Neither – and certainly not on a supplier with no metering business

In the context of ROMA, vertically integrated refers to a supplier having a MAP and/or MOP (or MAM) business. At this point in time, the parent companies of all large suppliers have metering businesses of some form in Great Britain. However, they should not be forced to retain these businesses by way of forcing them to provide metering services. It would not be right to place an obligation on an organisation that is commercially not feasible.

It should be noted that the suppliers with their origins in the public electricity supply companies have different densities in different areas of their supply bases and their meter operating activities. So a company that may have a relatively high national market share in supply may have a much lower supply market share in certain areas and a still lower share of MOP density in certain areas.

For the purposes of MOP of last resort, then this could only operate effectively in an area where the supplier's parent company has an appreciable MOP density in the area. To bind a supply business with MOP obligations could have unintended consequences in restriction the evolution of MOP business models.

For the purposes of MAP of last resort, the regional issues are less, but there remains the issue of a supplier using MAPLR to "rent" the balance sheet or capacity in contingent liability of a competitor.

We believe that with smart metering, metering is a fundamental component of a supplier's service to their customers. If a company made no investment in this service, preferring instead to rely on MPOLR then this would be to the detriment of consumers.

*Q5b) Should the obligation comprise meter provision services; meter installation and maintenance services; or both?*

None



To require a supplier to provide MAP services forces them to take the balance sheet impact of an outright purchase or operating lease. This is not reasonable.

To require a supplier to provide MOP services forces them to maintain footprint density. Not only is this an unreasonable imposition on a supplier in what may be a non core business area, but this may have the effect of foreclosing the competitive MOP market by the creation/maintenance of incumbents.

*Q5c) Could such an obligation be overly burdensome?*

Yes

It would be burdensome and inefficient to impose a balance sheet impact on a supplier for third party services in what may be a non core aspect of their business.

*Q5d) Should the obligation contain a sunset or review provision once the rollout of smart meters has been completed?*

Yes – the requirement is undesirable and if present, should be phased out quickly

On the one hand, the natural attrition of dumb meters precludes the requirement for a sunset clause, and additionally the end of the programme is sufficiently far away for there to be time to repeal any redundant licence conditions.

On the other hand, if a condition is placed on suppliers in order to facilitate a transition, then a sunset clause (not to be extended), would place the proper discipline on the regulatory framework, and the certainty of the end date would provide the proper incentive for suppliers to contract for metering services.

*Question 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?*

Yes

We have noted the potential restriction on suppliers' business models by having MPOLR on suppliers. Whilst we support regulatory oversight of MAP rental, a non discrimination licence condition would have the effect of a de facto price control. The cost model would then drive the business model and thereby restrict evolution. There would be further unintended consequences, for example on meter functionality. An enforced provision of minimum functionality meters would deter innovation and advance, whereas the rental of higher functionality at cost reflective prices (rather than cost reflective only for generally usable functionality) would distort the market towards a particular design.



*Question 7: Do you consider a MPOLR is required for smart meters?*

No – what MPOLR exists should not require the provision or management of smart meters.

Notwithstanding our belief that smart meters reside best with Distribution Networks, with the supplier led model, it is not appropriate to require the DNs to maintain the systems and processes to procure, install, track, and maintain smart meters.

DNs primary activity relating to meters will be safety. With DNs not being active MOPs we believe that they cannot fairly expected to manage communications, either between the meter and the In Home Display, or from the meter to the Supplier Head End. Hence we believe that to the extent to which they are required fit meters, these should be dumb meters.



## Chapter: Four – Gas Metering Price Controls

*Question 1: Do you agree that legacy meters (credit and pre-payment) should remain under price control?*

Yes

We also believe that the age profile of the meters should be taken into account. For recently fitted meters, there is the issue of stranding risk. For long standing meters, meter rental is paid on fully depreciated assets.

*Question 2: What is the impact on customers if we reset price controls for:*

- a) PPM meters?*
- b) DCM meters?*

Broadly speaking, we would expect credit meters costs to decrease at the expense of PPM meters. If suppliers maintained a relatively stable cross subsidy in favour of PPM customers, then PPM charges would increase.

*Question 3: We seek views on whether there is any advantage in setting a cost reflective 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?*
- b) In the transition to smart metering, what consideration should be taken into account when setting a new price control tariff for dumb meters?*

In price controls, new and replacement assets already have termination/stranding protection. Any upward revision of a price cap should be viewed in the round, and possibly cause a lowering of some other charge. In particular, inherent termination penalties should be viewed in the round with price caps.

The key principal is that if price control takes place on new and replacement assets, the regulator should take account of what stranding/termination clauses contracts have in place to avoid the metering supplier accelerating return via asset rental and enjoying standing payments as well. The age profile of Asset portfolio is another factor in determining rental costs; historically average age has been used but this can distort the outcome i.e. paying full rental on fully depreciated assets.

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

PPMs have a number of costs including provision, maintenance, PPMIP, emergency credit and related issues, and exchanges for interoperability reasons.

PPMs tend to have a standing charge.



At some risk of oversimplification, following the energy supply probe, PPMs became cross subsidised by other payment types on credit meters. When relative cost reflectivity licence conditions took effect, PPMs were specifically allowed in Supply Licence Condition 25A to be cross subsidised.

Hence the costs specific to PPM over and above Domestic Credit Meters (DCMs) are not passed through to consumers.

The merits, or otherwise, of this policy is not discussed here, and we do not believe that supplier charges to customers are germane to ROMA. However, since industry costs do eventually flow through to consumers, we do believe that cost inefficiencies should be ironed out

*Question 5: What are the likely trade offs between the implications for the price for providing PPMs, especially for vulnerable customer"s verses the incentives for PPM smart rollout and cost 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?*

PPMs already have two key smart elements, namely; i) account accuracy (by virtue of the PPM charging activity automatically generating reads, and ii) an awareness of energy cost accrual in fairly short timeframes.

Should the PPM price cap actually be below cost (we make no comment here as to whether this is the case or not), then this would have the effect of facilitating the cross subsidy of PPMs from other customers. If cross subsidy of PPMs is an intended policy outcome, then this is delivered at least as efficiently and fairly via the DNs as by the suppliers.

Since all smart meters in both gas and electricity will have the technical capability to operate in PPM mode, then the question of smart PPM rollout refers to PPM infrastructure and PPM products.

If the price control is retained for legacy assets but reviewed for new and replacement assets, then this is likely to continue to reward MAP rental on fully depreciated assets at the same time as adding protection to the stranding of shorter lived assets. This asymmetry would lead to a rise in average charges, which would flow through to consumer costs.

*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?*

We are seeking a commercial agreement with providers which currently includes National Grid. The key to any future metering arrangements with NG will be the implementation of the court's rulings (CAT outcome) by way of a revised MSA to ensure arrangements going forward are not anti-competitive as well as acceptable commercial terms and financial framework . In particular we will seek to agree that



asset charges and termination penalties are transparent, fair and reasonable and reflect the age of the meter. We note the potential for a transfer of assets from regulated to commercial ownership would stimulate competition, but any such transfer would need to be in keeping with the court ruling and ongoing tariff caps.

Therefore asset charges will be based on a cost recovery schedule not revenue protection, as specified in the court ruling.

We have already consulted with Ofgem's Legal Team in this regard and will continue to do so whilst our negotiations with NGM are ongoing. However, if this process is not successful we will seek new arrangements with alternative providers