

Review of Metering Arrangements – Ofgem Consultation

Chapter: One

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

What is not referred to directly but dealt with using non specifics is the inertia and consequent barrier to meter competition created by the probability of Stranded Assets. Some £2 to £3 Billion GBP is tied up in gas and electricity meter assets in the UK. No business can support a speedy reduction in asset base greater than the planned and accepted depreciation rate as this would reflect directly and negatively on business value and share price.

The write down of meters is typically 20 years for credit gas meters, 10 years for gas PPM and Electronic meters and 10 years for Electricity meters. The later also have a test and repair process which can drive a replacement opportunity as the cost of change is easier to deal with as the cost of getting a person into the house is close to the value of the meter.

MPOLR is a very important role required particularly by small suppliers and so must be maintained to ensure minimised barriers to entry.

The opportunity for all suppliers to utilise the option of MPOLR has meant that the number of PPM's provided through this route is disproportionate. This situation is a direct consequence of competition which drives Suppliers to find the cheapest route to serve customers with an expensive meter while being able to demonstrate non discrimination in service provision for fuel poor or low income families.

See also answer to Chapter 3 Question 2

Chapter: Two

Consumer Protection

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

Metering charges / costs must be separated out from energy costs in a consumers invoice. The ever increasing separation of metering from energy provision via competition in Meter provision should drive the transparency of costs. The clarity of a separate charge per month / quarter in £.p rather than % of the energy charge will demonstrate to the customer this aspect of his bill and free up clarity for the competitive nature of energy and metering. The figure should be an average of all meter costs for the category of customer. Domestic would have one charge made up of SMART, Dumb, Credit and PPM's. SME may be two charges reflecting meter size, for larger loads a specific meter + AMR charge would be detailed.

The benefit of cost / charge separation means that the cost of metering becomes transparent to customers. The present effect of having it included in the cost of energy means that the more energy a customer uses, the greater the income to the supplier from the metering element so stimulating cross subsidy. The cost of meter provision, particularly for domestic use is not linked to usage or through put.

The separation of meter costs openly shown on invoices to customers will allow Ofgem to monitor charges and allow Suppliers to approach Ofgem for review of those charges should they become out of line with costs.

For Ofgem to maintain visibility of meter charging during SMART role out will give confidence to the customer and ensure the aims and objectives, as set out in the

first paragraph of the 'Context' section at the beginning of this consultation document, which read – 'Since 2000 Ofgem has taken measures to facilitate competition in gas and electricity metering services, to promote lower metering costs, better service and encourage innovation and the introduction of smarter forms of metering.' – are met.

Commercial Interoperability

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

No meter, or flow of data from a meter, or equipment attached to a meter for the purposes of providing data flow, should be a barrier to a customer changing supplier at the time the customer chooses. Neither should the obtaining / provision of information / data previously flowed from such a meter or equipment be a cause for delay to a customer changing supplier at the time the customer chooses.

Any Primary Meter which has a pulse or other output for the purposes of data and or information collection where the meter is owned by any one and installed for the purposes of the measurement of energy supplied by any energy supplier, must be fitted with an additional data output. This additional data output must mirror the output for any other purpose and be available in order that the customer can see his own data and or make available his usage data to persons or organisation of his choice.

All meters should have an eyeball readable dial.

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

No information on which to form a reply.

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?

Clearly the two meter markets are different and at different stages of development. This is correctly identified by Ofgem. A single market model would be more difficult to develop and even more difficult to apply at this time and as a consequence no significant benefit could be achieved.

As smart meters are installed in numbers, once the issue of depreciation has been overcome, and the engine of change is more easily identified, then would be a reasonable time to review.

Metering Agents

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

The visibility of information by RMA's is a good proposal if the detail they obtain is to be restricted to RMA's for the purposes outline in the UNC. The potential for Suppliers to create and bring in house their RMA's who can obtain information about meters and consequential usage (linked to size of meter etc.) is a concern and one which should be monitored very effectively by Ofgem. The opportunities for cherry picking customers would be the origins of concern.

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

A review which deals with the introduction of SMART meters will naturally surface data type and content changes sufficient to deal with any present issues.

Chapter: Three

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

For the time being, in order to ensure smaller or new entrant Suppliers are not disadvantaged MPOLR should remain for Dumb meters.

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

The DNO's and GDN's as MPOLR may be a present issue for them but this will diminish as SMART meter roll out commences in earnest. Most PPM's are in Domestic property and SMART is an effective PPM as it will have remote switching facilities yet the initial cost and servicing should be much reduced when compared to the current ETM.

Leaving the responsibility for MPOLR with the two types of organisation to manage will stimulate the move from their ETM population which they are responsible for to SMART in order to reduce their current disproportionate cost impact. In effect they will have the answers in their own hands. The removal of MPOLR will distort the market in a different and unhelpful way and it will remove what is an effective means of meter provision for the customer.

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?

Presumably the "misuse" to which you refer in the question is an indication by the DNO's and GDN's that they are being relied on to pick up the costs of the more expensive meter provisions. Suppliers already have an obligation to provide a meter when requested by a customer. If this is thought not to be happening then this may in itself provide Ofgem reason to investigate the market abuse. Particularly if part of the market is being unfairly impacted by another. The provision of yet another Licence condition unless justified will only serve to cause other impacts and these then will need to be prevented by yet further Licence conditions etc. etc. Going to the route of the problem at the Supplier end of the process may show the cause which may be more easily dealt with.

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).

Because of the long trailed impending introduction of SMART and the consequential unresolved impact of Stranded Assets the market has not been ordering dumb meters which in turn would become Stranded Assets. The timing of the release of the design, style, type and detail of SMART meters means that only a few large market leading Suppliers have taken the big risk of developing and ordering their own.

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?
- 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?

By Question 5, is Ofgem suggesting that Suppliers are or will become "discriminatory"? Suppliers have a requirement to deal with all customers appropriately under the Licence. Ofgem do not need any further powers to investigate if discrimination was considered the case.

If Ofgem consider that an obligation would prevent discrimination then it is not an area for consultation, Ofgem should create an obligation across all matters pertaining to Suppliers and their customers.

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?

Suppliers may endeavour to seek ways around any inhibiting obligation. It is for Ofgem to take account of customer experience and feed back to ensure any moves by any Supplier to go down any such road is curtailed and reinforced by significant fines when a Supplier is found wanting.

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

Yes

Chapter: Four

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

Yes.

If the issue of Stranded Assets is a real one, and clearly it is, then Ofgem could mitigate this by allowing the increase in the price control for Legacy Meters to rise by a figure, say 10% above inflation until the completion of the SMART program.

The effect of this would be to stimulate the market as existing meters become depreciated quicker (paid for) through greater allowed revenue.

The apparent rise in cost of metering between a SMART meter and a Dumb meter would be also mitigated as the cost of Dumb meters is raised through this greater than inflation rise.

Question 2: What is the impact on customers if we reset price controls for:
a) PPM meters? b) DCM meters?

All actions fall to the customers cost or to the increased revenue for the market. The resetting of the price controls will free up revenues and could stimulate the market for the faster introduction of SMART meters. Monitoring by Ofgem against revenue for Suppliers must be an inextricably linked aspect of any reset.

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.

See answer to Chapter 4 Question 1 above.

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

See answer to Chapter 4 Question 1 above.

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

A number of factors will influence the speed of the roll out of SMART Meters, such as the availability of approved and tested meters, availability of manpower and customer availability to give access etc.

In addition MAM's have an obligation to ensure the overall accuracy of the 'in use' meter population. As a miss match between the speed of change to SMART and the need to maintain accuracy requires additional Dumb meters to be purchased, the consequence will be that those new Dumb meters will have a very short 'in use' life. Knowing that Ofgem will be taking this into account will help MAM's develop strategies to help the roll out process.

Ofgem building and maintaining communication with meter manufacturers and importers will help Ofgem understanding the numbers of SMART meters being made available against what the Suppliers report as fitted. The knowledge of the numbers will be critical to determining changes to a price cap or allowed revenues.

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

This is the one area where the customer should not pay the full cost reflective charge for the provision or use of a PPM.

However, charges which should be levied on customers are those where clear and identified abuse of the meter or system has a cost.

Question 5: What are the likely tradeoffs between the implications for the price for providing PPM's, especially for a vulnerable customer versus 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?

When SMART meters, which are PPM's in their own right, are available they should be targeted at ETM meter users. The cost of ETM meters is high because of the lack of competitive options plus the cost of the abuse some customers give them plus battery issues. The introduction of SMART should bring the cost down as the data available from the meter will help create case history and so allow a better case to be built to convict those who abuse.

Question 6: We are aware that National Grid Metering is renegotiating the MSA contracts.

No information on which to form a reply.

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

No information on which to form a reply.

Additional Comments

Meter Approval

The development of SMART meters and the introduction into the UK will very much depend on the smooth process for assessing acceptability. The present process requires extended life testing and batch sampling which can delay acceptance some months.

Many meters available on the continent already carry the approval mark of the EU standard yet are still tested again in this country.

While no one wishes to undermine the historical accuracy and reliability of the UK population of meters earned over some considerable time, some easing of acceptance criteria will help in dealing with any short fall in availability.

Once the overall type and detail design criteria is available from Ofgem / DECC later in 2011 so that the meters can be produced to meet that specification, the uninhibited acceptance of meters produced to that specification and already stamped to meet EU standard will help,