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18 February 2011

Dear Steve,

**REVIEW OF METERING ARRANGEMENTS:
Initial Findings and consultation on proposed metering industry remedies**

Thank you for the opportunity to provide views on the above consultation. ScottishPower welcomes the opportunity to provide our views on the initial findings of the Review of Metering Arrangements (ROMA).

We continue to believe there are benefits to be offered by metering competition and the ability to procure meter asset provision under competitive commercial agreements. We therefore welcome the most of the initial findings and remedies proposed to ensure a smooth transition to a smart world and are pleased that Ofgem has recognised the need to concentrate on aiding the design of commercial arrangements for the smart metering roll out.

However, we do believe that two of the proposed measures go beyond what we would consider necessary, namely:

- *Licence Condition in relation to Meter Provider of Last Resort (MPOLR) provisions* – while we support the principle that MPOLR should only be used in genuine last resort cases, we think there are better approaches to deal with this than a Licence Condition on suppliers.
- *Non-discrimination Obligation* – there is currently sufficient choice and competition for the provision of electricity dumb metering services and we have seen no evidence to suggest that the lower level of competition in gas dumb metering (which arose for historic reasons) will arise for smart. The proposed obligation – effectively a *de facto* price control, risks closing the market for independent metering operators and will be burdensome and disproportionate to operate. We are happy for competition in metering services to be kept under review during the preparation for and delivery of the smart meter roll-out. But it should not be necessary at this stage to place any obligation on large or vertically integrated suppliers to provide these services or to do so on particular terms.

We have noted our response on each of the specific questions in the Annex to this letter.

I hope you find these comments useful. If you require further information on anything within this response, please do not hesitate to contact me, or Lorna Gibb from ScottishPower Energy Retail's Commercial Regulation Team on 0141 568 3021.

Yours sincerely,

A handwritten signature in blue ink that reads "Rupert Steele". The signature is written in a cursive style and is positioned above a thin horizontal line.

Rupert Steele
Director of Regulation

Chapter: One - Introduction

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

We agree with the requirement for a review of metering arrangements and fully support the need to link this at all times into the smart metering implementation programme.

Chapter: Two – Consumer Protection, Commercial Interoperability, Metering Agents

Consumer Protection

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

We agree with the views on consumer protection and that the current process has not adversely impacted consumers.

Commercial Interoperability

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

We support the view that there is no benefit in mandating a standard form of metering contract. Commercial interoperability will effectively be supported with improved data provision in a timely manner by the DCC (Data Communications Company).

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

Over recent years we have experienced some issues with metering arrangements on a change of supplier. However these have been sporadic in nature, impacting a very small number of customers. Individual examples can be provided if required.

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?

There is no requirement for an industry designed commercial model as it may suppress innovation. The market will determine the appropriate model or models. In a competitive market, pricing for an efficient operator should reflect costs and reasonable commercial return. Where a MAP is charging a rate that is out of step with equivalent providers this can be quickly identified and resolved through normal commercial processes.

Metering Agents

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

We believe that UNC297 has improved visibility for MAMs allowing them to establish key information relating to the particular sites they are appointed to. This in turn has helped to improve the quality of metering and read data since the MAM is now able to verify the accuracy of the data held centrally by the Transporter's agent.

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

We appreciate that the RGMA process has not always functioned as well as all suppliers had hoped. However, we believe any changes to the baseline should be tied in with the smart metering roll out as the industry would not benefit from fundamental changes to the existing dumb meter process.

Chapter: Three – Vertical Integration & Network Companies Obligations

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

Although we do not currently use the MPOLR process, we recognise the ongoing requirement for this to remain in place for dumb meters and that GDNs are the appropriate party to provide this.

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

In light of the Supreme Court decision on the National Grid Legacy MSA there is a possibility that a percentage of all suppliers' metering portfolios could default back to MPOLR contracts. If that is the case then the MPOLR obligation should remain with the GDN's until the smart metering roll-out is substantially completed.

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 agree with the principle that MPOLR should only be used in genuine last resort cases. However we do not believe a Licence Condition on suppliers would be the best approach to deal with this. There could be difficulties of definition of what commercial efforts (and at what price) the supplier is meant to demonstrate, and we consider that such a condition places an enforcement burden on suppliers in an area where there is no consumer detriment.

We think that it would be sufficient to relieve a GDN of the obligation to provide MPOLR services in cases where the GDN reasonably believed that the requests were not of a last resort nature. Ofgem could provide guidance as to the circumstances that it might normally regard as being consistent with a "last resort" process. It would be best to

minimise the need to present evidence in each case, both because of the administrative burden and because of the need to avoid any commercially sensitive information being provided to NGM.

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).

In all tenders issued by ScottishPower Energy Retail Ltd for Electricity Metering there have been a number of respondents able to offer services in each of the DNO areas and competition would appear to be working well.

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?

In our view there is currently sufficient choice and competition for the provision of dumb metering services for electricity so we see no reason for that not to continue for smart. We think that the reasons which have led to a more limited level of competition for dumb gas meters are historical and unlikely to arise in the smart environment. We think it is appropriate for the level of competition to be kept under review, as part of the smart metering implementation, during the preparation for and progress of the smart meter roll-out. However, we do not think it is necessary or desirable to regulate either the Big 6 or vertically integrated suppliers in the absence of any identified problem.

An obligation of the type described – especially the terms addressing the actual level of the charges – would in effect be a price control. We do not think that this activity meets the normal criterion for price control – in particular the existence of a natural monopoly – and as such would be overly burdensome. We believe that the use of a vague *ex post* definition of acceptable prices, combined with Ofgem's fining powers, provides a situation that is virtually unworkable for metering businesses.

In the event that Ofgem were to proceed with this, there should certainly be a sunset provision.

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?

In our view the proposed obligation on suppliers would have the following unintended and/or undesirable consequences:

- By requiring the supplier-affiliated metering businesses to operate in accordance with a *de facto* price control, there is a real risk that suppliers will be forced to

under-cut independent metering businesses, potentially driving them from the market and certainly acting as a major barrier to entry;

- The operation of the obligation will itself be complex, since independent clients of the metering business may not require the same service as the affiliated client. It is unclear whether it is intended that the affiliated metering business is required to deliver multiple service specifications and of so how they will be defined;
- If more than one service package is delivered, there will be further complexity in establishing how the pricing should vary between service package, as well as the overall level of charges.
- The use of an unclear, *ex-post* obligation of the kind suggested is inappropriate for controlling prices.

In short, this approach risks creating a substantial compliance burden and foreclosing the market without any clear rationale or demonstration of natural monopoly. It is therefore disproportionate.

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

In our view there is currently sufficient choice and competition for the provision smart metering services and therefore no requirement for a MOPLR.

Chapter: Four – Gas Metering Price Controls

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

We agree that gas legacy meters have to remain under price control. This provides a transparent cost calculation which all industry participants can review and forecast on.

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

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

The obvious impact would be an increase in costs for customers. This is particularly pertinent to low income and vulnerable customers, but may be necessary to ensure costs are reflective.

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?*

We are supportive of cost-reflective pricing therefore we do recognise that there could be an advantage in setting a cost reflective price cap for new and replacement dumb meters that will consider early meter replacement.

While there is a theoretical advantage in setting prices for GDN meter provision above the cost reflective level in order to encourage competition and reduce use of the MPOLR

process, the impending arrival of smart metering may mean that there is limited value in encouraging further competition in this market segment.

It is important to achieve cost reflectivity wherever reasonably practicable in the overall balance of GDN charges, taking account of consumer impacts. It has to be recognised that it is not appropriate for the cost recovery of any dumb meters being fitted in the transition to smart to be priced over an unrealistic timescale, e.g. 10-20 years, but this has to be balanced against increased metering costs to customers arising from any significant reduction in the cost recovery period.

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

We think that the charges for gas PPMs provided under the MPOLR system are probably somewhat below cost. Inevitably, suppliers take these costs into account in setting their prices for customers (and indeed there are now licence requirements in this area). Whether any changes in gas PPM MPOLR charges would lead to tariff changes will obviously depend on the extent of the change and whether (for suppliers not using MPOLR) the change also affects pricing in the competitive PPM provision market.

Question 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 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?

The current system benefits suppliers who use the MPOLR process and their PPM customers at the expense of either the GDN companies or (to the extent this negative value is implicitly part of the price control settlement) gas customers generally. As a matter of general principle, we think that Ofgem should aim to minimise the distortions of competition and in particular should avoid maintaining price controls below cost plus an appropriate return. A willingness to maintain price controls below cost without an explicit compensation elsewhere in the price control, even in a relatively peripheral area such as this, sends an adverse signal to network investors and is probably contrary to Ofgem's duties.

We think that an unduly low MPOLR price may have some effect in reducing the incentives to progress smart meter provision for PPM customers. However, we think that there are other issues to be resolved for the smart PPM roll-out and these are much more likely to be the determining factor.

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?

At present we are not in a position to indicate our future metering arrangements since discussions are ongoing with gas metering providers.