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14th October 2011

Wales & West Utilities response to OFGEM revised proposals for commercial interoperability: proposals in respect of managing domestic customer switching where meters with advanced functionality are installed

Dear Tabish,

Wales & West Utilities Limited (WWU) is a licensed Gas Distribution Network (GDN) providing Gas Transportation services for all major shippers in the UK. We cover 1/6th of Great Britain and deliver to over 2.5 million supply points. WWU is the only Licensed Operator that focuses solely on Gas Distribution in Great Britain.

Wales & West Utilities is currently in the process of writing its business plan for submission by 30th November 2011 to Ofgem for the RIIO-GD1 price control period 2013-2021.

We provide answers below to the specific questions in your consultation where we have a response; however, before answering the specific questions we have some general comments.

We are pleased that the proposals take into account some learning from the introduction of domestic metering competition. When domestic metering competition was introduced the industry systems and file formats (Revised Gas Metering Arrangements or RGMA) required to support it were not in place. One large supplier decided to introduce competition in advance of these systems being available using their own bespoke file formats with the MAMs they appointed. This resulted in considerable problems for other suppliers, who had to develop communications with the MAMs when they gained customers whose meter had been changed by one of these MAMs. The key learning from this is that effective commercial interoperability requires not just obligations to make information available but also efficient, cost effective and common systems to transfer the information within the timescales required.

A lesson from metering competition was that only one supplier fully took advantage of the opportunity, we think that this was at least in part due to other suppliers not having sufficient customer density in all geographies across Great Britain. We believe that this meant that these other suppliers were not able to find service providers to provide a service at a competitive price in all geographic areas. We expect that many gas suppliers will find it similarly difficult to roll out smart meters even though the replacement programme will be significantly shorter than that for a replacement programme based on replacing dumb meters at the end of their economic life.

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In preparing our Well Justified Business Plan for the 2013-21 price control period, we have sought to engage with suppliers to understand their rollout plans so we can plan our resource requirements accordingly to support smart meter rollout; however it has proved difficult to engage with suppliers as many, including large suppliers, are not in a position to discuss their rollout plans. This suggests that many suppliers are either still in the early stages of planning or are not fully aware of the implications of the requirements. It seems likely that the installation of a significant number of Advanced Domestic Meters (ADMs) will only serve to complicate an already complex and challenging task. We believe that many of the logistical challenges of smart meter rollout would have been overcome by a network led rollout and re-bundling metering with networks which would have served to help competition in supply, albeit at the cost of potentially a small decrease in customer choice.

Centrica has reported that installing Advanced Domestic Meters (ADMs) has resulted in a 30% reduction in churn. (Utility Week 16th September 2011 page 4). We believe that suppliers see smart meters as a means to reduce customer churn and predict that smart meter rollout will reduce churn and further establish the big six as the dominant players in the domestic market. We are seeing increasing concern from Ofgem who wish to encourage small shippers in the transportation market resulting in modification proposals that seek to address the issue through inappropriate means. We believe that a more appropriate policy tool to encourage competition would be to reduce the vertical integration in the supply market. This could be started by removing the ability of suppliers to have metering in-house or to own metering businesses. This would mean that small suppliers would not have to put in place processes to rollout smart meters and could concentrate on their retail activities. This could be achieved by a distribution business led rollout of smart meters.

Suppliers understand that it is not possible to carry a large range of meters for Post Emergency Metering Services (PEMS), however customers may not and may not understand why they do not get a like for like replacement of an ADM following PEMS work.

Question 1: Do you agree that suppliers should be required to inform the customer of any potential loss of services before a switch takes place?

We believe that this is essential as most customers have little awareness of their meter and metering competition and therefore do not understand that different meters and different suppliers could offer differing services. This is apparent when we receive requests for service alterations where a meter exchange is required and we have to explain that the customer has to contact their supplier to arrange this. It is vital that customers are aware of the implications of switching supplier when they have an ADM so that they can make informed choices; however informing customers is likely to lead to two detrimental effects:-

First, it is likely to reduce switching as customers may decide not to switch as they do not wish to lose the features of the ADM, even though they may not lose all of them. The key here is that the customer does not know what functions will or will not be available from the new supplier and will probably struggle to find out. Second, it may lead to disillusionment with the smart meter programme as customers may believe that the ADM is a smart meter. We believe that this may occur even if the installing supplier makes it clear at the time that the ADM may need changing in future and that the features may not be available if the customer switches supplier. If this does occur on a reasonably large scale then it could seriously compromise access rates for the delivery of the post 2014 smart meter rollout.

An additional practical issue is that it may be difficult for the existing Supplier to inform the customer prior to a Change of Supply (CoS) event taking place where the customer has an ADM. Customers do not need to speak to their existing Supplier to change supplier and, by the time the existing supplier is aware, it may well be too late for the necessary communication to take place. The new supplier will face similar challenges as they may not be aware of the equipment and/or the capability of the equipment installed at the customer's premises. It may be possible to obtain this from the customer but this detail can be of a technical nature and the customer may not be able to provide the information to the supplier. This issue will be compounded by the fact that many customers that change supplier do so through 3rd party agents or websites and have no direct (verbal) communication with either the existing or new supplier.

As part of the DECC smart metering project, the GDNs along with Xoserve (the Transporters Agent) have been in discussions relating to the foundation phase and how the CoS process could be adapted to facilitate such an exchange of information. Unfortunately, discussions on the foundation phase have taken a back seat to discussions on DCC Go-Live (expected 2014) and therefore there has been little progress on this matter. The GDNs / Xoserve would still be willing to discuss with the industry this matter to see whether any such developments could assist with ADM interoperability, the foundation phase and act as a building block for the enduring regime.

Question 2: Do you agree that the old supplier should be required to disable any misleading information prior to the switch taking place?

We agree. Disabling information that relates to the previous supplier (such as prices) will avoid any confusion for the customer and should help to ensure that they do not see incorrect or misleading information either on the meter or on any In Home Display (IHD).

There may be problems for some suppliers in doing this because the definition that Ofgem are proposing for ADM meters does not include the ability to send messages / commands to the meter. If the existing supplier is unable to do this it would require a physical site visit by the existing supplier or the ability for the new supplier to carry out the disabling of data (and upload of their own).

Question 3: Do you agree that the old supplier should be prohibited from removing historic consumption data from the meter?

The customer should have the right to know their past consumption data and therefore this information should be available to the customer and not disabled by the existing supplier on change of supplier. If it is available from the meter it should remain accessible to the customer but only accessible to the new supplier if the customer permits it to be made available. The retained data should also remain available to network owners for the period prior to the change of supplier.

Question 4: Do you agree that the suppliers should not be allowed to charge for the replacement of a prepayment meter ADM in these circumstances.

The question relates to the scenario where a new supplier takes over an ADM in prepayment mode but is not able to operate it and has to change the meter for a prepayment meter that the

new supplier can operate. We strongly agree that the customer should not be charged in the scenario described in the consultation; however we do not see a difference between this situation and the current position where a supplier takes over a meter that it cannot support or that has to be changed to conform to the new supplier's policies. Therefore Ofgem either needs to regulate for all such meters or rely on suppliers voluntarily not to charging in the scenario described. If suppliers were to be prevented from charging for such exchanges this must not be extended to the service providers that actually do the work in the field.

Question 5: Do you agree that the old supplier must make available to the new supplier all the information they would need to help maintain the provision of services based on ADM functionality?

We believe that it is essential that this information is made available to the new supplier. As mentioned above, a potential solution to this would be for industry systems and processes to be amended to include sufficient information so that parties can identify that an ADM is in place. We believe that the information will need to be:

- Made available in a timely manner in accordance with industry switching timescales
- In an industry agreed format and standard transmission mechanism so that development and processing costs are minimised

While the incoming supplier will be the main user of the information it is important to recognise that other parties also need to interact with the ADM. Gas transporters will encounter ADMs in the course of their day to day activities for example in the course of emergency call outs, service alteration and mains replacement activities. It is essential that suppliers that install and operate ADMs cooperate with gas transporters in providing the information to enable transporters to interact with these meters when required. Failure to do this will result in increased cost and inconvenience to the customer. Wales & West Utilities has sought to engage with suppliers regarding these issues however it is clear that even suppliers who are installing ADMs have only just started to think about these issues.

The table below gives a non-exhaustive list of examples of information and/or access to the meter that transporters will require.

Operation	Transporter activity	Example of information required by transporter	Reason
Determine the mode of operation	Emergency	Prepayment or credit mode	To enable replacement meter to be set up correctly
Ability to access meter menus on site	Emergency, service alterations, mains replacement		To enable existing or replacement meter to be set up correctly
Determine the position of valve	Emergency	Open or shut	If report of low pressure then this could be explained by shut valve
Purge the meter	Emergency, service alterations, mains replacement		To enable customer to be left on gas
Understand what the meter will do if it is moved	Service alterations, mains replacement	Will it lockout access to menus, send a tamper alarm, close the valve etc	Lack of understanding will could result in customer being left off gas or additional cost and delay from having to call out supplier

Question 7: Do you agree that a large supplier should make available on request all services that a new supplier would reasonably require to maintain some or all of the services relating to ADM functionality?

Wales & West Utilities agrees that new suppliers need to be able to operate the meter that is in place at the customer's premises.

Question 8: Do you consider that the proposed volume thresholds are appropriate? If not, please suggest what would be more appropriate thresholds.

While the thresholds may be reasonable from an overall materiality point of view, we suggest that they still impose risk for the new supplier and that this risk is particularly acute for small suppliers. If a small supplier happens to pick up a customer with an ADM then under the Ofgem proposals they have to be able to service them or change the meter. There will inevitably be some cost of putting a process in place even if they benefit from the services that the installing supplier will have to offer. In addition, some suppliers will inevitably pick up customers before the threshold values are reached by the large supplier and they will struggle to provide services to these customers. We recognise that this may be only a short-term risk but believe that Ofgem should consider whether it is material for small suppliers.

Question 10: Do you consider that additional incentives are necessary for suppliers to avoid ADM meter exchanges on change of supplier where possible.

The potential incentive proposed whereby the supplier that installed the meter may be charged for a meter exchange where the meter installed cannot be operated by the new supplier is likely to be contentious as well as very complex and difficult to administer. The fact that the measures proposed in Questions 7 and 10 are being discussed shows that the competitive metering market has not delivered the desired outcomes. It will be very difficult to regulate this market adequately to ensure a free flow of data with potentially several different types of ADM. There seem to be three options available:

- 1) Prohibit installation of non smart ADMs on the basis that the costs exceed the benefits, this option seems to have been discounted owing to the view that there could be customer benefits of allowing the installation of these meters.
- 2) Allow the installation of ADMs with or without some tinkering with the market and let the industry cope as best it can. This was the approach adopted when metering competition took place and one supplier used its own bespoke file formats and is in essence the approach proposed to deal with ADMs (although we recognise that Ofgem is trying to mitigate some of the impacts by proposing some regulation).
- 3) Allow a new supplier to refuse to take on a customer who has a non-compliant ADM and only require a new supplier to accept a customer with a dumb meter or a compliant smart meter. In addition require the existing supplier (generally the installing supplier but possibly a supplier that has accepted a customer with an ADM) not to discriminate against customers with ADMs.

We suggest that option 3 should be considered.

Adoption of option 3 would clearly have an impact on customer switching, however it would enable suppliers to make a choice between taking on customers with ADMs and not doing so. It seems likely that different suppliers will take different approaches and therefore while customers with ADMs are likely to face a restricted choice of alternative suppliers they are still likely to have a choice. It would allow suppliers that did not wish to incur the costs of managing ADMs to avoid taking on these customers and may be a particular benefit to small suppliers who could avoid the complexity and the costs of having to put in place processes to manage these meters. While suppliers that install ADMs would need to have obligations to make information available to the new suppliers, the fact that the new supplier has chosen to take on ADMs should mean that the new supplier treats these customers as wanted customers rather than as a complication. If no suppliers wish to take on ADMs, this will feed back to customers of suppliers who are installing ADMs and may lead to these suppliers reconsidering their decision to roll out ADMs. Ofgem's role as a regulator would then be to ensure that suppliers installing ADMs did not discriminate against customer with ADMs.

Question 11: Do you consider that the measure outlined here places appropriate incentives on the installing supplier in respect of the costs of a meter exchange?

Question 12: Do you consider that £60 represents an appropriate proxy for the cost of a meter replacement in these circumstances? If not, what would you consider to be a more appropriate amount?

Both question 11 and 12 are examples or more and more detailed regulation to address a problem, we expect that other detailed provisions will be required to make the proposed solution

work. In our answer to question 10 above, we suggest an alternative approach that merits investigation. The fact that regulation of ADMs is required indicates that the market has not delivered the desired outcomes and the appropriate question is how this should be addressed. Ofgem's proposed approach seems to consider that maintaining customer choice in the short term is a pre-requisite of any solution, we suggest that this is not necessarily correct and that a solution that offers some choice but not unlimited choice could be optimal. This approach appears to be entirely consistent with Ofgem's principle objective defined in Section 4AA of the Gas Act:

The principal objective of the Secretary of State and the Gas and Electricity Markets Authority (in this Act referred to as "the Authority") in carrying out their respective functions under this Part is to protect the interests of consumers in relation to gas conveyed through pipes, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas so conveyed.

The duty is to protect the interests of consumers, we suggest that this can be achieved at times by restricting choice rather than by having maximum choice as a requirement.

Yours sincerely



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