

# The Transfer of Meter Asset Manager Scheme

## A Gemserv Response

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## 1. Executive Summary

Gemserv's corporate vision is that *'Every market can work efficiently and with integrity'* and as a leading player in the development of market design and industry governance, we welcome the opportunity to contribute to the design of an independent, industry led gas Meter Asset Manager (MAM) approval scheme. We believe that good independent governance is a key requirement for pro-competitive market based solutions such that stakeholders can take ownership and responsibility and become intrinsically engaged with market change.

In our response we outline why the current MAM approval scheme and the accompanying Code of Practice for Gas Meter Asset Managers (MAMCoP) needs to be self-governed by the industry.

We identify a number of difficulties with the proposal to transfer the current MAM approval scheme to SPAA. Our main concern is that SPAA is designed principally to support supplier interoperability during the gas change of supplier process, so that consumers can efficiently switch gas supplier. The agreement is not designed to manage technical metering aspects for the gas market (other than RGMA data flows), and will therefore require significant modification. Furthermore, we question whether industry governance independence for Meter Asset Managers (MAMs) is best served under a compromised solution.

The Meter Operation Code of Practice (MOCOPA) is an effective industry governed approach for electricity metering operation. It has provided effective market assurance for over ten years; indeed Ofgem comments that it has appropriate levels of governance and incentives for the industry, and at the same time protects the interests of consumers. Whilst Ofgem are regular attendees on the MOCOPA Panel, it does not rely on Ofgem for the decision making process. There appears to be no reason why a similar approach could not be adopted for gas.

We therefore suggest an alternative approach which draws on the principles of good industry governance to embrace a truly independent, industry led, MAM approval scheme.

We recommend the use of a framework that is already proven to be fit for purpose, as the basis. Such a framework could be based on a MOCOPA model.

## 2. Introduction and background

Gemserv welcomes the opportunity to respond to Ofgem's consultation on the Transfer of Meter Asset Manager Scheme.

In our response we outline why the current MAM approval scheme and the accompanying Meter Asset Managers Code of Practice (MAMCoP) needs to be self-governed by the industry.

We note that Ofgem is aware of a similar metering governance model that operates outside Ofgem's direct control. Ofgem states in its consultation:

*"Electricity metering agents are required to sign up to the electricity metering agent code of practice (MOCOPA). The MOCOPA governance arrangements are overseen by a review panel and supported by Gemserv in the role of Registration Authority. We consider this model provides an appropriate level of governance and incentives for the industry, whilst protecting the interests of consumers."*

It is against this backdrop that Gemserv provides its analysis and recommendations for the MAM approval scheme going forward.

## 3. About Gemserv

Gemserv is an expert provider of market design, governance and assurance services, predominantly in the utilities and environmental sectors. Gemserv provides expert support to all stages of a market's lifecycle – from designing and developing a scheme or market through to its implementation, performance monitoring, ongoing management, assurance and transition to a new market or administered arrangements as requirements evolve.

We have extensive experience in competitive utility markets including providing governance services for the Independent Gas Transporters Uniform Network Code (iGT UNC), designing the market arrangements for the Scottish water market, and administering the governance of the Great Britain (GB) electricity Master Registration Agreement (MRA) and the electricity Meter Operation Code of Practice (MOCOPA).

Gemserv's objective is to make competitive markets work effectively and with integrity and we are the leading specialist UK consultancy in the field of consensus building between industry stakeholders. By providing a range of governance related services, we facilitate fair, dynamic and innovative market arrangements so all participants have a voice in developing the policy and regulations that govern them.

Our focus is always that all industry participants should have equitable opportunity to compete fairly in their chosen market through clarity of participant obligations and by constructing supportive pro-competition governance arrangements.

We also believe that good, independent governance is a key requirement for pro-competitive market based solutions. This way stakeholders can take ownership and responsibility and become intrinsically engaged with market change, whilst protecting the interests of consumers.

#### 4. Further information

Gemserv would be delighted to share and discuss the views expressed in this paper in more detail. If we can be of any further help, please do not hesitate to contact us:

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#### 5. Our approach to the consultation response

Drawing on our experience as Registration Authority for MOCOPA as well as our broad market experience for electricity and gas, our response is structured as follows:

- Section 6, we explain about the Meter Operation Code of Practice Agreement;
- Section 7, we set out our analysis, including the core governance elements we believe are important going forward, and the alternative to SPAA;
- Section 8, we set out Gemserv's concluding thoughts; and
- Appendix 1, sets out Gemserv's response to Ofgem's specific consultation questions.

## 6. About the Meter Operation Code of Practice Agreement

### (MOCOPA)

The Meter Operation Code of Practice Agreement (MOCOPA) is an agreement between electricity Distribution Businesses ('DBs') and electricity Meter Operators (MOps) in GB. MOCOPA's primary aim is to provide assurance in terms of safety, technical competence and general interface issues between DBs and MOps.

MOCOPA authorises MOps to install and connect meters to the DB networks by clarifying that the metering equipment being provided, installed and maintained meets appropriate technical requirements and that the metering work undertaken is carried out to necessary safety standards.

MOCOPA clarifies duties and obligations and sets out guidelines, compliance with which gives confidence to all parties in the electricity supply market that meters will not introduce barriers to consumers switching suppliers nor introduce barriers to entry to participants in these markets. More importantly, MOCOPA also seeks to ensure the safety of staff and the public.

The arrangements are overseen by a Review Panel (proportional membership of technically competent DB and MOp representatives), with additional representation for suppliers, settlements, Ofgem and supported by Gemserv in its role as the Registration Authority.

MOCOPA also embraces the following established industry governance mechanisms:

- Governed by an industry led Review Panel
- Codifies the relationship between DBs and MOps in the provision of meters for the supply of electricity
- Requirements apply to the provision, installation, maintenance and testing of all (HH,NHH & smart) types of electricity meters
- Provides further confidence to electricity suppliers that their agents are complying with supplier requirements under the Distribution Connection and Use of System Agreement ("DCUSA")
- Annual Auditing of DBs and MOps company processes, in addition to a well-established risk based site audit mechanism of meter operatives
- A formal compliance process managed by an independent Registration Authority

- For the majority of GB DB networks, the MOCOPA is the stand alone operational authorisation requirement for MOPs and their staff. It acts as a supporting mechanism for those DB networks which still have their own individual authorisation requirements
- A comprehensive governance and change management process (including consultation with all industry stakeholders)
- Review Panel authority to establish industry work groups to resolve existing and new issues within the electricity metering/network interface boundary
- An established funding mechanism, where all costs are shared on a proportionate basis amongst DB and MOp signatories

## 7. Our analysis

For our analysis, we draw on a number of principles we consider to be necessary for effective industry governance. We assess why the current MAM approval scheme needs review and update. We also use the same principles to assess the feasibility of SPAA as a governance vehicle for the MAM approval scheme. We then set out an alternative approach for the MAM approval scheme going forward.

### 7.1 Principles of good industry governance

We based our assessment of the most effective and appropriate option for the future governance of the MAM approval scheme drawing on our extensive experience of governing industry codes (MRA, MOCOPA, iGT UNC, etc.) and Ofgem's Code Governance Review principles. We take the view that the MAM approval scheme has to be a model that will benefit and give confidence to consumers, all industry participants and regulators by ensuring:

- Robustness of governance
- Independence
- Industry participation
- Representation of all relevant stakeholders
- Transparency
- Fostering competition
- Robust change management and appeals processes
- Effective market assurance (and enforcement) of technical and safety standards

## 7.2 Background to the MAM Approval Scheme (MAMCoP)

In May 2000 Ofgem published proposals to secure effective competition in the provision of gas metering services within GB. A key consideration was to ensure that any technical and safety issues were effectively assessed. As such, a gas industry representative group developed the MAMCoP by bringing together all relevant GB technical documentation, relevant standards and legal requirements covering the complete life cycle of gas meter installations.

From 2004 all gas suppliers and gas transporters within GB have been obliged to only use Meter Asset Managers (MAMs) who work and demonstrate compliance with the MAMCoP. Ofgem set up a scheme to assess and, where appropriate, approve those MAM's possessing the relevant expertise to provide meter-related services. To facilitate this, Ofgem appointed Lloyds Register to assess, register and, thereafter, periodically audit MAM's who apply to Ofgem for MAM approval against the requirements of the MAMCoP.

The Lloyd Register's contract comes to an end in August 2012, and the administration of the MAMCoP being mostly technical is viewed as being better placed under industry governance rather than under Ofgem.

This consultation now provides the opportunity to consider the transfer of the MAM approval scheme to SPAA. It is evident that the preferred Ofgem approach must maintain the MAM approval scheme's technical and safety aspects, yet provide the least regulatory burden for the gas market and Ofgem.

## 7.3 Why change the current MAM Approval Scheme?

Ofgem's proposal to transfer the control and responsibility for the MAM approval scheme to the industry allows it to take a step back and allow an industry led agreement to fulfil the objectives of the original MAM approval scheme.

Ofgem state that the MAM approval scheme is self funded, which is partly true. The assessment and auditing costs are recovered from the MAMs. Ofgem's own costs for formally approving MAMs and managing/administering the MAM approval scheme are recovered through the supply licence fees.



In its consultation, Ofgem note that the administration of the MAMCoP is mostly technical. Indeed, the MAMCoP Board members are highly skilled and competent individuals. However, it lacks a formalised and documented governance approach underpinning the code (e.g. like SPAA, MOCOPA), and the lack of a formalised change management process hinders MAMCoP going forward. As a result, the MAMCoP has not been revised since 2005, although members meet once every quarter.

During quarterly meetings industry developments are discussed, including smart metering, as well as issues that arise from the MAMCoP. The MAMCoP Board constitutes nearly 40 members, including Ofgem, National Grid, EU Skills, suppliers, and MAMs.

While extensive participation allows for input from all stakeholders, the MAMCoP Board acts more like a Forum rather than a proactive governance panel. Whilst changes are discussed and, where justified are agreed during meetings of the MAMCoP Board, with such a large group changes take time to formalise and codify. Furthermore, there are no formal provisions for appeal, leaving the potential for unresolved issues if grievances go unheard.

Fundamentally, MAMCoP requires a more formalised governance framework. It also needs to be industry led and independent. MAMCoP must have clear and transparent governance rules and processes, including robust change management practices. These rules and procedures need to be flexible enough to accommodate the integration of future industry developments such as smart metering. With these developments, the MAM approval scheme could further foster competition, maintain the confidence of consumers, regulators and industry and be sufficiently flexible to meet the challenges of smarter markets.

## 7.4 Using SPAA as the governance vehicle for MAMCoP

Our analysis identifies a number of difficulties with the incorporation of the MAM approval scheme under SPAA governance.

SPAA is an agreement on data formats to support the Change of Supplier (CoS) process. It is not designed to manage technical metering aspects for the gas market (other than data formats), and will therefore require significant modification. Not surprisingly, SPAA is therefore limited to domestic gas suppliers and gas transporters (it is not mandatory for I&C suppliers). Most importantly, it does not yet involve MAMs and it is unclear how MAMs will be represented under a new SPAA structure.

SPAA also has no provisions to ensure technical and safety standards within the metering arena. The parties to SPAA self certify that their systems are fit for purpose. In the case of non-compliance the affected party may not benefit from SPAA schedules. Thus, SPAA has no provisions for market assurance, compliance monitoring and no experience of technical or safety standards. It is evident that an overhaul of SPAA, its governance and structure are necessary. This will require significant resource and time, when the industry is being subjected to significant change through smart meters.

SPAA is currently funded by supplier contributions based on market share. Ofgem suggest continuing with this funding model. Gemserv questions whether this is the right or indeed the most market efficient approach and whether being funded solely by suppliers drives the right accountability - there is a risk that MAMs could be commercially disadvantaged if MAMs do not have adequate control.

In short, transferring MAM approval scheme to SPAA, and addressing the above difficulties with both SPAA and the MAM approval scheme is akin to having to rewrite the SPAA governance. It will require a fundamental re-write of SPAA and its purpose. Given the extent of the work required to accommodate MAMs within the SPAA governance framework, it questions whether it might be better to design the governance approach more akin to MOCOPA.

## 7.5 An Alternative Approach

We recommend starting with a framework, such as MOCOPA, noting that such an approach would incorporate many of the characteristics that are required to support a MAM approval scheme.

We have outlined the MOCOPA approach in Section 6. By utilising the existing MOCOPA framework and processes as a governance model for MAMCoP, we believe this has an immediate fit with what is required as the foundation for the MAM approval scheme. For example, the audit, assurance, change management and compliance procedures could serve MAMCoP just as well as it currently does for MOCOPA.

Gemserv observes the increasing convergence of gas and electricity in the retail market sectors, e.g. in support of smart metering. This alternative approach provides opportunities for better coordination of the gas and electricity metering issues as markets move forward under smart metering, improvements to metering safety, best practice etc. Furthermore, Gemserv suspects there could be cost efficiencies to consider especially as the gas audit and assurance arrangements come up for review.

## 8. Conclusion

Gemserv believes that before moving the MAM approval scheme to SPAA, the available alternatives should be fully considered. We believe there is an alternative model, one that is better aligned with the metering market requirements.

However, as a minimum the MAM approval scheme should consider:

- **Governance Framework:** We advocate the use of a tried and tested governance model, one that is based on the MOCOPA model and therefore best suited to MAMCoP, with transparent procedures and rules
- **Independence:** The MAM approval scheme needs to be administered by the industry so that the industry may take responsibility while ensuring safe systems and consumer protection
- **Inclusivity:** Achieving buy-in through assigning collective inputs by those market participants who are directly affected by the MAM approval scheme
- **Approach:** The extent of the work required to accommodate MAMs within the SPAA governance framework is significant, it therefore questions whether it might be better to design the governance framework based on MOCOPA
- **Future Proofing:** To develop governance in such a way that encourages gas and electricity metering issues to be shared
- **Cost effectiveness:** By using existing code governance services that provide sufficient flexibility to embrace new developments, and reduce overall costs to the industry

We believe that the benefits of using a MOCOPA based model for the future management and responsibility of the MAM approval scheme should be considered against the SPAA option presented in the consultation document. We would be happy to assist in this process by providing further detail and information on MOCOPA operation.

## 9. Appendix 1: Gemserv response to the specific consultation questions

**Question One: Do you consider that a MAM approval scheme remains appropriate for gas metering?**

Yes. Gemserv believes the rationale for establishing a framework for approving and monitoring MAMs against agreed standards and asset management best practice remains valid. There is little demonstrable evidence that technological or regulatory developments have reduced the risks and potential impacts identified when gas metering competition was implemented. The MAM approval scheme has been proven as an effective mechanism to facilitate risk mitigation, management and control within the gas industry.

**Question Two: Do you agree that it is more appropriate for the MAM approval scheme to be managed by the industry rather than directly under Ofgem?**

Yes. Gemserv believes that it was appropriate for Ofgem to work with industry to establish and manage the original MAM approval scheme and to ensure the successful introduction of gas metering competition. However, as metering competition is now well established and confidence exists across the energy market, Gemserv agrees it is now the appropriate time to consider whether industry should take on management of the MAM approval scheme.

**Question Three: Do you agree with our policy proposal, to transfer the MAM approval scheme to the SPAA? If not, please set out what your preference would be and why?**

Gemserv agrees that the MAM approval scheme is best managed by industry.

However, we question whether the option to transfer the responsibilities to SPAA is the best available solution. Whilst SPAA has a key role managing the effective and efficient transfer of consumers between suppliers, this is largely a process driven activity. It is not apparent that the SPAA structure presently lends itself to managing and operating predominantly engineering/technically based activities which are clearly key for the effective management of the MAM approval scheme.

SPAA could adapt and develop governance arrangements to include MAMs and employ technical expertise to support scheme management. However, this is likely to attract significant costs, take considerable time and could distract SPAA management from its core role – at a time when its focus should probably be on confronting the challenges of smart metering and ensuring its processes remain fit for purpose in the smart environment.

As an alternative to opting for SPAA management of the MAM approval scheme, there are potential benefits to be realised by utilising existing systems, governance frameworks and business processes that have a better fit.

It should also be noted that transferring the MAM approval scheme into SPAA would maintain the division between gas and electricity meter asset management. This is against a backdrop where the energy industry is moving towards combined systems for smart meter provision and asset management and where many domestic MAMs operate portfolios in both gas and electricity.

**Question Four: Are there any advantages or disadvantages to our approach that we have not taken into consideration in this consultation, particularly in the context of the smart metering roll out? If so, please set these out.**

As noted above, Gemserv suggests that Ofgem should consider any opportunity of bringing together, where sensible and practicable, metering governance arrangements into a common framework. As smart metering is one of the largest change management programmes that the UK has undertaken it is clear that new entities, technology providers and services providers will be operating within the energy industry.

Smart metering will require meters to be considered as components of a system within the home. Gas and electricity meters will need to communicate and interoperate with new assets, such as the communications hub and In-home display. From a technical perspective, aligning approval schemes will promote more effective and swifter resolution of the numerous smart meter installation issues that can be envisaged when smart metering rolls out in high numbers. Maintaining the split between gas and electricity asset management responsibilities, by transferring the MAM approval scheme to SPAA, will not allow this opportunity to be realised.

Gemserv also notes that this consultation does not include the Ofgem Approved Meter Installer scheme (OAMI). Gemserv understands that contractual arrangements are in place between Ofgem and a service provider that assesses and monitors gas meter installers. Meter installation is clearly a key part of the meter asset management process. Ideally, including this as part of the transfer would simplify arrangements and enhance benefits.

Gemserv suggests that it may be appropriate for Ofgem to consider how co-operation between the OAMI and MAM approval scheme can be best achieved to ensure effective management and operations.

**Question Five: How do you consider the scheme should be managed and funded in terms of a Management Board and audits?**

Gemserv believes that the MAM approval scheme should continue to call upon the competence and expertise of individuals and relevant players that operate in the gas industry. A management board or governance panel should be in place to guide, influence and make recommendations on key issues. It should also oversee overall governance of MAM assessment and audit processes to ensure effective operation is maintained.

Gemserv suggests that it would also be important to ensure that market participants are equally represented at the board or panel level. This should include MAMs, ENA, ERA, ICOSS, AiGT, smaller suppliers, SBGI, BEAMA, AMO, Gas Safe Register, OAMI scheme management, IGEM, EU Skills, National Measurement Office, HSE and Ofgem.

At the operational level demonstrable competence and experience should be employed to undertake risk based assessment and auditing - utilising best practice technical and quality auditing techniques.

Once again, the suggested approach mirrors that already in place under the existing MOCOPA scheme. MOCOPA also benefits from a positive feedback loop that enables the industry to benefit from best practice and learning from across the sector which should be adopted by the MAM approval scheme.

The costs for funding the current arrangements are split between Ofgem's licenced cost recovery mechanism and fees directly paid by MAMs to Ofgem's service provider. Ofgem's costs arise for scheme management and associated administrative duties and, for its service provider, for assessment and audit services that support the MAM approval scheme.

Under new arrangements all costs should be recovered directly from those participating in the scheme. The level of application and management fees should be set to reflect the resources required to deal with any particular application and ongoing requirements for maintaining approval. This will ensure any costs for individual MAM non-compliance are directly recovered and not smeared across the overall cost base.

It is clear that in the MOCOPA scheme that uses a resource reflective cost recovery mechanism, clear incentives are in place to ensure that operations are effectively delivered. Aligning arrangements for the MAM approval scheme with MOCOPA will introduce the same cost driven incentives. It is less clear how SPAA will be sufficiently incentivised to employ similar rigour to its cost base unless there are sufficient incentives provided in its governance regime.

**Question Six – Do you consider that the proposed licence drafting is appropriate to give effect to the proposed scheme transfer and ongoing governance?**

Gemserv has not commented on the proposed licence drafting as this will largely depend upon the nature of the scheme that is ultimately taken forward.