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Dear Steve,

This is British Gas' response to the questions posed in the 'Decision and further consultation on the regulation of traditional gas metering during the transition to smart metering' consultation document.

The consultation document mentions that it has been many years since the metering price controls have been reviewed and we welcome Ofgem's plan to revisit them, although we are cautious of potential disturbance (rebalancing) between domestic and I&C sectors, which should be limited as far as possible.

Question 1: In respect of the methodologies for allocating the RAV between domestic and I&C businesses, have we properly identified the policy objectives that should inform the balance between domestic and I&C tariffs?

As National Grid intends to continue meter provision in the I&C market but not the domestic market, it is important that both markets are managed independently.

We agree with the three identified objectives but we consider that facilitating the Smart Metering rollout programme should be the main priority that is addressed first and foremost by ensuring that none of these decisions will adversely affect the rollout. Once this has been guaranteed, then the other objectives should be considered.

We agree that there should be no discrimination between the I&C and domestic sectors, but this is a difficult objective to achieve as the two sectors differ greatly and this difference is only likely to grow with the Smart rollout. We have concerns that an attempt to retain parity between the domestic and I&C price controls will lead to a solution that is neither pragmatic nor cost-reflective for each sector.

Finally, we would request that Ofgem considers providing a view (for the benefit of industry and National Grid) on the potential to rank the policy objectives, recognising that a methodology with a positive effect on one objective may have an opposite effect on another. The selection of an appropriate methodology will be a balancing act between these objectives, and for this reason we welcome further clarity on any intended methods of appraisal. We have provided guidance on our priorities above.

Question 2: How should the question of discrimination between domestic and industrial and commercial metering tariffs be considered?

The overarching principles of cost reflectivity and recovery should be applied to both domestic and I&C meters. As per our previous answer, there are growing differences between the two sectors and so trying to prevent discrimination between the two should not prevent two divergent charging methodologies being designed for both domestic and I&C customers.

Requiring National Grid to develop a list of assumptions for domestic and I&C meters is a sensible first step and we would welcome the opportunity to discuss and question these assumptions. The scrutiny of Ofgem, suppliers and other interested parties should ensure that the National Grid metering price control is as close to cost-reflective as possible, whilst taking a balanced view of all policy objectives.

Question 3: What are the relevant factors that should be considered before determining an approach that helps promote competition in the I&C market and facilitates the rollout of smart meters?

The approach should fully reflect the fact that the installation of traditional (or dumb) metering from now until 2019 has a guaranteed stranding cost and National Grid should be able to recover these costs from those suppliers requesting these meters. These costs should be designed to encourage suppliers to only install traditional meters as a last resort if Smart is not available. If these meters do not reflect the full stranding cost then we have concerns that this will encourage suppliers to replace traditional meters on a like for like basis, rather than a Smart installation being a preference in line with the aims of the Smart metering programme.

Question 4: Are any of the methodologies that we have identified for allocating the current RAV particularly appropriate or inappropriate?

It is difficult to provide a useful view on the appropriateness of each approach with no real visibility of the potential impacts. Abstract principles are easier to comment on with some indicative illustrations, and we hope Ofgem or National Grid is able to provide expert analysis and commentary on these approaches at part of any future industry consultation, along with an objective comparison against the identified policy objectives (see also our answer to question 1).

For the time being, we do not believe any approach can be discounted. Each one should be considered, with illustrations, and where appropriate eliminated at a later stage. A high-level appraisal of the options makes it clear that it is easy to identify the drawbacks of each, but much harder to make a comparative judgment based on their merits. We provide some limited commentary on the possible methodologies below.

Method 1 does not take into account the significant changes in the markets for domestic and I&C over the last decade. We note with interest the varying trends in NG's domestic and I&C portfolio growth. That said, and whilst it may be hard to support on the grounds of cost-reflectivity, this approach should not be discounted as it may offer advantages in stability and predictability which support other key policy objectives.

Method 5 suggests that the price controls should ensure that National Grid provides meters at a cost that allows them to compete in the market. The consultation document notes that National Grid has a significant proportion of the I&C metering market, which may grow if they are the meter provider of last resort. This should provide savings due to economies of scale that will enable them to offer meters at lower cost than their competitors. If this is not reflected in their price control then there is a concern that National Grid may over-recover their costs.

In addition, our current view is that it may be inappropriate for domestic tariff levels (representing the largest number of meters) to be determined based solely on the characteristics of an entirely separate market. For the 'zero-sum' exercise being undertaken, BG would rather see a consideration of both sets of meters from the outset, rather than one as a simple product of the other. We believe this is more likely to limit significant redistribution of cost between the sectors.

In summary, therefore, we currently consider options 1, 2 and 3 to be marginally more appropriate than options 4 and 5, taking a balanced view of the stated policy objectives (and our own ranking of those objectives). We would be very keen to understand properly the potential impact of options 4 and 5 on the 'residual' RAV allocation to domestic meters, and welcome further consultation on this.

Question 5: Do you consider if there are there any other methodologies we should consider?

We note that none of the methodologies focus on calculating the domestic RAV and leaving the remainder with the I&C meters. We recognise that calculating domestic values may be more complex but it should also be considered as an optional methodology, although admittedly this has the same drawbacks as options 4 and 5.

Question 6: Please comment on whether we have outlined a reasonable basis for conducting the tariff consultation exercise.

It is sensible for any tariff consultation exercise to consider the changing metering environment and for it to be based on the evidence from previous similar price controls. In this respect we agree that the consultation exercise is reasonable.

Question 7: Provide any evidence or views that would usefully inform the exercise or our review of the metering price control as a basis for setting a new basis for regulating metering services.

As the dynamics of metering in both domestic and I&C sectors is changing rapidly, it is important that Ofgem regularly monitors the allowed RAV to ensure that National Grid's price control is only allowing it to recover reasonable costs incurred.

If you have any further questions, please feel free to get in touch.

Yours sincerely,

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