

September 5th, 2012

Steve Rowe  
Smarter Markets  
Ofgem  
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London  
SW1P 3GE

**Further consultation on the regulation of traditional gas metering during the transition to smart metering**

Dear Steve,

Please find First Utility's response to the above consultation below.

*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?*

We agree that NGG's domestic market share in metering is likely to diminish significantly between now and 2019 when the national smart metering rollout is scheduled to conclude. It therefore seems reasonable to concentrate on NGG's metering activities in the I&C sector and ensure that effective competition within this arena is promoted. We therefore agree that Option 5, an allocation consistent with tariffs for I&C metering services being at a competitive level, leaving the residual RAV with domestic metering, is appropriate.

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

Given that NGG will eventually have little or no market share in domestic meters, this is an issue subsidiary to that of possible discrimination in relation to I&C tariffs. We feel it is appropriate that NGG's I&C tariff levels for metering continue to be subject to regulation given its large potential market share. As there will eventually no longer be any link between these tariffs and domestic metering tariffs for the reasons stated above, it would seem that an alternative method of regulating these will need to be found such as, perhaps, a reference to the average price offerings of other metering suppliers.

*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?*

As discussed above, we believe that the main point for consideration is the extent of NGG's market share in the I&C metering market and the most appropriate manner in which to regulate its charges relating to this, given that the current link between I&C and domestic metering tariffs will be removed by 2019 due to the national smart metering rollout.

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

We agree that proposed methodology 5 is probably the most appropriate approach.

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

We believe the methodologies proposed are comprehensive.

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

This seems 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.*

We have nothing further to add at this time.

Please do not hesitate to contact me if you have any questions or would like any further information.

Best regards,

Chris

Chris Hill

Regulation Manager

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