

September 5<sup>th</sup> 2012

Steve Rowe  
Ofgem  
9 Millbank  
London  
SW1P 3 GE

Dear Steve,

**Subject: NGN Response to Ofgem Decision & further consultation on the regulation of Traditional gas metering services during the transition to smart metering**

Thank you for the opportunity to comment on the decisions set out in the above document and provide further input to the outstanding issues that you raise.

NGN welcomes Ofgem's proposals to remove the Meter Provider of Last Resort (MPOLR) obligation and the recognition of the significant financial issues faced by NGN in meeting this obligation as a result of the significant diseconomies of scale associated with the small size of our meter asset population. We have previously raised concerns with Ofgem on the long term feasibility of this obligation and the distorting impact that it has had upon the certain elements on the domestic metering market.

However, we are disappointed that the opportunity was not taken to fully remove the MPOLR obligation on NGN in a shorter timeframe by placing the obligation directly on the back stop MPOLR to provide the services direct to suppliers. NGN will therefore continue to act as a "middleman" in this process adding no value. We would urge you to reconsider this decision.

There are two issues that have not been fully addressed in the latest proposals which need to be resolved:

- The issue of 'Stranding Risk' associated with the current meter stock has not been fully addressed. It is not clear that the proposals set out by Ofgem will ensure that domestic meters provided by NGN under the MPOLR obligation will be fully funded before they are replaced via the smart meter rollout programme. As a regulated asset, the framework must ensure that these assets attract a risk profile that is commensurate with it being a low risk regulated asset and the relatively low rate of return they attract.
- The proposal to carry out a detailed charging consultation from which tariffs will be derived that will apply universally does not appropriately account for the significant differences that will exist between the makeup of the meter asset stock of NGN when compared to National Grid. NGN's meter asset stock is on average less than 5 years old and still has a significant element of the asset value to recover from future prices. To the extent that National Grid's meter asset stock is older than this, setting future tariffs with reference to these assets will not allow NGN to fully recover the costs of these assets. Tariffs must be set to ensure full recovery of these costs.

Please contact me directly if you require any clarification or wish to discuss the issues raised above in more detail.

Yours sincerely

A handwritten signature in black ink, appearing to be 'GMR' with a flourish at the end.

Gareth Mills  
RIIO-GD1 Price Review Manager  
Northern Gas Networks Ltd  
Tel: 0113 397 5327