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Dear Steve

Review of Metering Arrangements (ROMA) – Consultation on the regulation of traditional gas metering during the transition to smart metering

Thanks for the opportunity to respond to your consultation ref 100/12

In summary our views are;

The Meter Provider of Last Resort (MPOLR) should continue to reside with the Distribution Networks (DNs). We understand the rationale for appointing National Grid, but we continue to have concerns about their monopoly position.

We note the next stage of the consultation, conducted by National Grid Metering (NGM), and rather than pre-empt the response to that consultation, regard this stage as setting the frame of that consultation. Given that National Grid is an interested party in commercial terms, we encourage Ofgem to take an active leading role, and in addition to recognise that there are aspects of the next stage that Ofgem may need to opine on, or to consult on in its own right.

There should be regulatory oversight of Meter Asset Provision (MAP) rental and a review of MPOLR charges, not least to ensure that they are transparent, fair, and reasonable and take true account of factors such as meter age. This should ideally also involve migration to a single industry baseline commercial model.

Enablement of unbundling of MAP and Meter Operation (MOP) should continue to develop, particularly in the information flows (e.g. change of supplier or agent) that facilitate asset tracking.

The risk of significant regional variation of post emergency services (PEMS) arising from the DN MPOLR sunset clause needs working through from a stakeholder perspective.

We seek further understanding of how MPOLR will work in the mass rollout phase of smart meters after DCC go live.

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The residential and business markets are distinct and should be allowed to diverge where appropriate.

Our responses to the previous consultations in the Review of Smart Metering remain representative of our views and are not repeated in detail here.

Our detailed comments are enclosed

Yours sincerely

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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?

Yes

We recognise that the allocation of Regulatory Asset Value between Industrial and Commercial and Residential meters is an inexact science. An assignation of a high RAV to domestic meters would both cost domestic consumers and distort the I&C market. RAV allocation only has a zero sum outcome on day one, as a distorted allocation incurs ongoing costs to consumers.

Whilst we of course support the policy objective of the smart meter programme, any impact that this has on RAV allocation should be clear and justified.

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

The starting point should be no discrimination, and thence any discrimination arising from the objective of competition in the I&C market or the smart rollout should be objectively justified (i.e. not be undue)

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?

Whilst we support competition, we believe that it is not an objective in its own right, but a driver for consumer value.

A key consideration is premature replacement of installed meter assets. An ineffective commercial model (for example with poor asset tracking, contract novation and commercial interoperability) can lead to increased overall costs and render competition incapable of delivering consumer value. At the same time, inappropriate premature replacement costs can distort competition.

Other than fair RAV allocation, commercial interoperability is the key driver for enabling competition. This can be achieved by migration to standard industry baseline for contracts (standard format at least), file flows, data flows, asset tracking, and standardised contract deeming. A limited “open book” approach may be helpful at this stage.

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

We do not believe any to be so manifestly inappropriate as not to deserve consultation.

We will comment on more detail in the next stage.

We believe that 3.42.2 (pro rata allocation based on current depreciated cost values) deserves the greatest attention

Portfolio revaluation should be “bottom up” (i.e. meter by meter, according mainly to age).

For the next stage of consultation, we believe that it would be helpful to have detailed worked examples for each methodology

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

We have not identified any missing methodologies at this point but it is possible that the consultation process will suggest some for consideration.

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

This will be better informed having reviewed the initial documentation from National Grid which will set out the basis in more detail.

With regard to the key principles (as we have interpreted them) proposed in Figure 3 (Pg 25) and option 3.42.2 (Pg27) these appear logical. Three areas of real concern remain:

1. The method for establishing the inputs and assumptions that inform the outcome.
2. Specifically their does not appear to be any recognition for the distinct and likely varying profiles of assets within respective supply businesses portfolio’s.
3. The role of NGM as the arbiter does not allay previous concerns expressed and presented to Ofgem in July 2011 with reference to 2 above.

Therefore overall we are concerned that the net influence on levels of profitability may be far from the regulatory norm when considered across the entire supplier base. We believe that this should be considered as part of NGM’s consultation.

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 believe that National Grid may be put in an invidious position if asked to make an objective distinction in acceptable level of return in comparison to other regulated services. Such a view would be necessarily subjective and therefore an objective oversight or direct view by Ofgem is required.

Dependent on the preferred approach regarding valuation of the respective portfolios a more detailed discussion would be required regarding the RAV and the nature of depreciation applied to date. This would only be applicable should the new valuation have a dependency on historical assessments.