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29<sup>th</sup> November -2019

## **WWU response to Ofgem statutory consultation on Transporter metering licence conditions**

Dear Jacqui,

Thank you for the opportunity to respond to the consultation. Wales & West Utilities is a gas transporter serving 2.5 million supply points in Wales and south west England. We have not provided meters of last resort since April 2014 and sold our entire metering stock to National Grid in 2015.

In summary our view is that this statutory consultation is premature and should have been preceded by an informal consultation on these issues. Moving directly to a statutory consultation could be seen as a lack of due process. If Ofgem considers that it wishes to pursue these issues then, in our view, a consultation should address the following points:

1. Should the obligations in D17 1, 1A and 2 be re-imposed?
2. Should the price caps on credit and pre-payment meter rentals be re-imposed considering the domestic price cap?
3. Should the price cap for Transporter read daily read meters remain and if so is it at an appropriate level?
4. Should the process in D17 2b be changed?

We address these points in turn below following a comment on the content of the Ofgem covering letter and the drafting of the current Transporter licence. Lastly, we raise a concern with the proposed drafting of the end date for these obligations in the statutory consultation.

We note that the Ofgem covering letter contains an inconsistency between the first sentence of the "Background" section and other parts of the letter. The letter states:

Gas Distribution Network Operators (GDNs) currently have an obligation to provide traditional gas meters and metering services when requested to do so by a gas supplier, at a tariff not exceeding a regulated rate.

This is contradicted later in the letter which states that the relevant licence conditions (D17 paragraphs 1,1A and 2) and parts of 4D ceased to have effect from 30<sup>th</sup> June 2019 when the

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Secretary of State implemented the “New and Replacement Obligation in Suppliers’ licences. This required Suppliers take all reasonable steps to install a SMETS 2 meter when making a new first-time installation or a when replacing an existing meter.

The above point is complicated by an error in both Transporter licence conditions D17 and 4D as can be seen from the proposed amendments issued with the open letter. The reference in D17 7 in the current Transporter licence refers to Supplier licence condition 33.6 (The duty in relation to replacement meters and new connections). The reference should be to Condition 33.7. Transporter licence condition 4D contains a similar but different error in that it refers to 33.5 (The duty in relation to replacement meters and new connections) rather than Condition 33.7. It is therefore not clear whether or not these Transporter licence conditions have actually been terminated.

#### **D17 1, 1A and 2 (Provision of meters)**

Although we accept that the smart meter rollout was expected to be more advanced than it is, our view is that, since the Secretary of State believed that it was appropriate to direct that the New and Replacement Obligation comes into force, -it means that suppliers have access to these meters and should be installing them. Where it is not possible to install a SMETS 2 meter then they can install a traditional meter. Installing a traditional meter can be done by a smart meter installer. Ofgem’s open letter Smart Meter Rollout: Open letter on Energy Suppliers’ Progress, Future Plans and Regulatory Obligations dated 19<sup>th</sup> June 2019 made no mention of Transporter licence conditions despite mentioning the imminent introduction of the New and Replacement obligation.

For this reason, we think that the obligation on Transporters to provide a last resort meter on request is no longer required and therefore D17 1, 1A and 2 are no longer appropriate. This would not prevent any Transporter from offering a metering service including traditional meters to Suppliers should they wish to do so.

#### **4D (Credit and pre-payment meter price caps on annual rental charges)**

The argument for having price caps on the rental charges for credit and pre-payment meters is presumably based on the argument that it protects consumers from price increases; however, the domestic price cap provides protection for consumers. The vast majority of Transporter owned domestic meters are owned by National Grid and this population is declining as smart meters are rolled out. This means that the price caps on Transporters only serve to provide price protection to Suppliers. In our view the price caps are not appropriate as they do not properly reflect the additional costs of prepayment meters and therefore distort price signals to Suppliers.

#### **D18 (Provision of Metering and Meter Reading Services)**

Insofar as D17 1, 1A and 2 are required then D18 is required. The obligations in D18 currently end on 31<sup>st</sup> December 2020. DNs have historically listed their charges for reading Transporter owned daily read equipment and charges for the must-read service in their metering charging statements on the basis that they are meter reading services falling under D18 1c. These services are provided under obligations in the Uniform Network Code Transportation Principal Document M 6.1 and 5.10 respectively and are therefore Transportation services.

If the requirement to publish a metering charging statement is removed by having an end date in D18 12 then these charges for Transportation services would need to be published in another

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charging statement. If this is the long-term expectation then it would be sensible to disapply D18 1c. Ofgem has the power to do this by issuing a direction using powers under D18 11. We hereby request Ofgem to provide such a Direction to WWU.

### **Appropriateness of the price cap on the Daily Read service**

Although the price cap on the daily read service was not intended to be in scope of the dis-application process related to Supplier licence condition 33.7, we think that a consultation would be an ideal opportunity to review whether this is still appropriate.

Supply Meter Points with an Annual Quantity (AQ, which is the amount of gas used in a year) over a stated value are required by the Uniform Network Code TPD G 1.5.3 to be daily metered and this is a monopoly Transporter service. The price cap for this service was introduced with the introduction of the Transco Network Code in 1996. At that time the threshold was an AQ of 2,196,000kWh. This meant that the population of daily read sites was about 20,000. In 1997 a Transco Network Code modification (055) was approved which raised the threshold to the current value of 58.6GWh. This reduced the population to about 2000.

Consequently, when WWU came into existence in 2005 it had over 200 daily metered sites, this is now down to 47 (including 2 IGT sites). WWU ran a procurement event in 2015 when its population of daily read sites was about 150 and obtained a service whereby the cost for the read service was within the price cap value; however, with the reduced number of sites there is a considerable risk that this will not be possible when the current contract expires and the service has to be re-procured.

Our view is that given the huge reduction in the number of Transporter daily read sites that a price cap is no longer required. If the 1996 threshold applied today WWU would have 2,668 Transporter read daily read sites compare to the 47 it currently reads. Should a consultation determine that a price cap is required then it needs to be set at a level that is appropriate to today and not be based on a charge set in the mid-1990s and index linked.

### **Regulatory mechanism**

If Ofgem decides, after a consultation, that the general obligations in D17 1,1A and 2 are appropriate then the process under D17 2b should be improved. D17 2b states that the DN is relieved from the obligation of paragraph 1 if the DN submits a request from a supplier for a last resort meter to National Grid within 14 days of receiving the request from the supplier. Strict compliance with this requires the process to be done each time. It would be much better if the licence allowed a more realistic process whereby a DN could give a one-off instruction to National Grid. Alternatively, for DNs such as WWU which do not wish to provide the Supplier of Last Resort service, a better approach would be for the obligation for provision of last resort meters in those areas to be imposed directly on National Grid and D17 1, 1A and 2 to be dis-applied for the relevant DN.

### **Drafting point**

We note that the intention is for the obligation in D17, D18 and the two meter rental price caps in 4D to end on the same date as the proposed end date for the rollout of smart meters which is defined in the Supplier licence condition 33.1. This is currently 31<sup>st</sup> December 2020 but we expect that this will be changed to 31<sup>st</sup> December 2024 otherwise from 1<sup>st</sup> January 2021 Suppliers will be in breach of their licence. The proposal in the statutory consultation is to set the end date for the obligations in D17, D18 and 4D to the end date for the rollout of smart

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meters in the Supplier licence plus 4 years. This works with the date that currently exists in the Supply licence but since it seems reasonable to expect that Ofgem will amend this shortly to 31<sup>st</sup> December 2024 (as well as amending other dates in this condition), it will require a further amendment to the Transporter licence otherwise the Transporter end dates would be 31<sup>st</sup> December 2028.

Yours sincerely,



Steve Edwards  
Director of Regulation  
Wales & West Utilities

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