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NATIONAL GRID METERING PRICING CONSULTATION
PROPOSED ROUTE TO DE-REGULATION OF I&C METERING

1. Background

During our recent Pricing Consultation, National Grid Metering (NGM) considered the challenges now facing our Domestic and Industrial and Commercial (I&C) businesses, highlighting the differing conditions to which they are exposed. Some stakeholder responses to our consultation supported the view that competition in the non domestic market was sufficient to warrant de-regulation, whilst others felt it was limited to only certain sectors.

Despite retaining a dominant position in the market, National Grid (NG) has seen the displacement of I&C meters where customers believe a more commercially attractive option is available. In recent years, we have also seen the majority of new meter installations in non domestic sites undertaken by our competitors. We believe that recent trends in market participant activity and preparations for the transition to smart metering have promoted greater competition in the non domestic gas metering market, demonstrated by a significant requirement for enhanced services and prices predominantly driven by market forces rather than regulation.

In the Appendix to the document "Review of Transco's price control review from 2002" of June 2001[1], Ofgem suggested a likely range of indicators to assess the state of competition in gas and electricity metering services:

- Market entry and exit
- Volumes and prices of incumbents and market entrants
- The behaviour of incumbents
- Awareness about the possibility of switching service provider, switching behaviour and the factors constraining the ability to switch
- The number and range of price and service levels offered
- Product and service innovation

We agree that these indicators offer a wide-ranging test of competition and we discuss each in more detail below, along with our view of the non domestic gas metering market.

2. Defining the market and assessing dominance

In their document published in March 2013 "The Retail Market Review – Final non-domestic proposals"[2], Ofgem discuss the lack of consistency in the ways that suppliers segment non-domestic

[1] Ofgem's document "Review of Transco's price control from 2002 draft proposals, Appendix 4 – Assessing competition in metering services" can be found at:
http://www.ofgem.gov.uk/Markets/ad/Documents1/Review%20of%20Transcos%20price%20control%20from%202002%20Draft%20proposals%20Appendices%2027%2006.pdf

[2] Ofgem's Final Proposals document following their retail Market Review can be found at:
http://www.ofgem.gov.uk/MARKETS/RETMKTS/RMR/Documents1/The%20Retail%20Market%20Review%20-%20Final%20non%20domestic%20proposals_22%20March_FINAL.pdf

consumers. They point to such factors as organisation size, multi-site businesses, energy spend or usage to illustrate how non domestic suppliers separate their customers. In contrast DECC provide six usage-based categories of non domestic gas consumers, largely aimed at clarifying the basis of the rules governing smart, advanced or daily read metering:

Annual Consumption	No. of sites
>58,600 MWh	360
5,860 - 58,600 MWh	
2,196 - 5,860 MWh	
732 - 2,196 MWh	28,500
73.2 - 732 MWh	
<7.32 MWh	c1.5million

Various estimates of the size and segmentation of the non domestic gas metering market have been made, with broad agreement that the overall population is approximately 1.5 million meters. However, various presentations by market participants to industry fora cite estimates of the U16 or larger population differing by as much as a third, ranging from 450,000 to 600,000 meters. Generally, this overall population is divided between domestic sized meters (U6) in non domestic properties and larger diaphragm (U16 to U160), rotary and turbine meters. We would suggest that segmentation by meter size offers some degree of simplicity and, when coupled with the market sector code determining usage type, could separate the overall gas metering market into six categories:

Domestic – U6 / U16 and above
Non domestic – U6 / U16 to U160 / Rotary / Turbine

Competition in the market can be assessed through the number of market opportunities presented, these being the installation of new meters or undertaking the efficient replacement of existing meters. Our Policy Meter Exchange (PME) programme gives suppliers the option of either requesting that NG undertakes this work or to appoint an alternative agent to undertake the meter exchange. As a result, a proportion of meter replacements are being undertaken by third parties on behalf of gas suppliers. We prioritise not only meters requiring exchange due to safety or accuracy drivers but also those reaching the end of their economic life. We estimate that some three quarters of all new installations are undertaken by our competitors. The rate of attrition of NG's I&C meter portfolio and the proportion of new meter installations undertaken by others demonstrates that gas suppliers are obtaining competitive offers.

Recent years have seen an increase in market participants offering multi-utility services, end to end installation, asset and data management capabilities and a range of additional products and services developed in response to the transition to smart metering. We believe assessment of competition across these emerging activities, many of which include the provision and management of a metering asset as an integral part of the service provided, could also offer a way to define and segment the market.

Although NG currently retains the largest portfolio of non domestic gas meters it is clear that NG's dominance has not stifled the development of competition, demonstrated by the rapid growth of successful competitors.

3. Market entry and exit

At the opening of competition in 2000, there were very few accredited metering providers in the non domestic market. As of 01/03/13, the Ofgem Approved Meter Installer (OAMI) listing now details 108 gas meter installers, of which 83 are accredited to install large diaphragm and rotary meters between 6m3/hr and 1076m3/hr and 74 who are accredited to install other low pressure meters and for any higher pressure sites. The Association of Meter Operators (AMO) lists 16 member companies offering gas metering services, with capabilities covering all sizes of meter and for both provision and

maintenance. The increasing number of accredited organisations in recent years provides evidence that the market is sufficiently open and diverse to enable new participants to enter.

The transition to smart metering will mandate the displacement of traditional domestic meters but will not necessarily require existing non domestic meters to be displaced. We expect most non domestic U6 sized meters will be displaced at a similar rate to domestic meters but many meters sized U16 and above will be able to remain in service until normal retirement. Compliance with the smart metering mandate will be achieved through advanced metering and AMR technologies, creating new opportunities for products and services complementing traditional meter asset management activities.

Since April 2009 energy supplier licences have included a requirement to provide advanced metering for new supplies and meter replacements where gas consumption is above 732 MWh. DECC acknowledge the choice that non domestic gas suppliers already have between using network-based services, setting up their own metering business or contracting with a third party to install gas meters in their customers' properties. Increasing use of advanced metering and associated technologies has provided further opportunities for competitive services complementary to gas metering, demonstrated by several Requests For Information (RFIs) by gas suppliers seeking provision of AMR services. The growth in this area, it has necessitated the development of industry standards and a code of practice, the Automated Meter Reading Service Providers Code of Practice for Gas Meters (ASPCoP). The Energy Services and Technology Association (ESTA), which oversees ASPCoP, lists seven organisations as being fully accredited. NGM recently underwent a successful audit and has now achieved ASPCoP accreditation and expects to be added to the listing.

Several barriers to market entry have been suggested, such as financial reserves, robust data management capabilities, engineering competence, contractor network and access to a strong supply chain. A necessary hurdle to market entry exists to ensure that participants have adequate technical and operational capability, particularly where sites utilise intermediate or high pressure gas. Accreditation against such standards as the Meter Asset Management Code of Practice (MAMCoP), sanctioned by the necessary regulatory and governing authorities, serves to ensure that larger, more complex installations are correctly designed, installed, operated and maintained. We believe that such controls remain necessary and appropriate to meet safety and engineering requirements.

4. Volumes/Prices of incumbents/market entrants

Most market participants do not publish a full statement of rentals charges, requiring customers to contact the relevant organisation prior to disclosure of prices. The majority of market participants offering asset management services price against a standardised structure of meter capacities, enabling customers to make a straightforward comparison of rental rates. Traditionally, the overall rental price is a product of the provision and installation charge, together with the charge for an ongoing maintenance service. In terms of services offered, some market participants do not include unplanned maintenance requests in rentals and only undertake non-standard work subject to quotation. Others do not separately charge for low pressure diaphragm meter installations, differentiating service offerings and prices based on pressure tier and installation complexity instead.

Contract terms also offer market participants the opportunity to differentiate their prices and offerings, with various contract durations between five and twenty years offered to customers. Variation is also seen in the distribution of initial installation costs, with some participants charging upfront transaction fees followed by a lower rental charge and other choosing to amortise installation costs across an ongoing agreement. As a result, some degree of normalisation is necessary to compare overall prices offered, assuming a standard contract term, addressing the likely impact of any term protection included and amortisation of asset provision and installation.

The volume and range of products, services and pricing offered in the market place now offers the customer competitive choice. It also enables new entry to the market for potential participants through the diversity of activities which now form part of the non domestic gas metering market.

5. Behaviour of Incumbents

For some years, various Domestic and I&C suppliers have utilised third party service providers to undertake meter exchanges and new installations. Largely driven by legislation requiring advanced or smart metering, greater levels of activity and new relationships between gas suppliers and service providers or meter asset managers are being seen. Acquisitions and mergers have enabled the rapid growth of asset management capability and a range of specialist gas metering services. In some cases, these new contracts have entailed exclusive metering agreements between supplier and service provider, resulting in the displacement over the duration of the contract of those meters in the NGM portfolio previously rented to that supplier.

Emerging clarity on smart metering requirements has created a need for a guaranteed pulse output and driven significant programmes of meter replacement or upgrading, providing opportunities for new market participants and evidenced by vigorous marketing activities undertaken by various competitors. Some offer, on request, to install AMR equipment at the same time as replacing existing metering equipment, thus using the AMR request to gain market share in meter provision but resulting in some assets being removed before reaching the end of their economic life. The exchange is neither dependent on the age of the existing asset, nor any capability to deliver a guaranteed pulse, but serves to access one sub-market from another. Similar leverage is also evident in multi-utility and siteworks offerings where the installation and ongoing maintenance of the gas meter forms part of a bundled service.

As a regulated business with the largest share of existing installations, we are conscious of our obligations neither to unduly discriminate between different customers or classes of customers nor to abuse our dominant position. Previously, it appeared that some market participants were using NG's prices to set their own metering prices. More recently, it would seem that market maturity and competitive tendering activities have enabled more market participants to price independently for the services they provide.

6. Awareness about the possibility of switching service provider

We believe that customers have a good awareness that there are alternative service offerings from other market participants. Industry forums and seminars, sponsored by organisations such as ESTA and the Energy and Utilities Alliance, provide various market participants the opportunity to present to delegates. In our Pricing Consultation activities, we have discussed with a wide range of stakeholders the level of competition in the market and the development of in-house metering services that some gas suppliers now have. During other contact with our customers, they also tell us that they are aware of alternatives available to them and in turn their customers as some market participants now also undertake marketing direct to consumers or groups of consumers, offering bulk services at reduced rates.

7. Number of services/range of price/service levels offered

Annual charges for the provision, installation and maintenance of non domestic gas meters vary with meter type and capacity and between various metering businesses. As a regulated business, our rental prices for smaller non domestic gas meters are constrained by the level of the domestic credit meter tariff cap. Recently, we have seen increased displacement rates across all sizes of our meters where customers believe a more attractive commercial option is available. Responding to these developments in the market, NGM are in the process of developing a range of new products and services, along with the offer of an alternative non domestic metering contract.

Non domestic gas metering presents differing degrees of complexity depending on the pressure of the gas supply to the property and the range of ancillary equipment required. Not all market participants are able to offer meter provision and maintenance services across low, medium, intermediate and high pressure sites. We understand the view that the lower number of market participants offering high pressure gas metering services has resulted in competition developing more slowly in this sector.

Larger, more complex metering installations can result in a greater cost to maintain but rental prices for such sites generally reflect the additional skills and frequency of maintenance required to ensure the installation remains safe and fit for purpose. Over time, customers have expressed an increasing desire for a greater degree of cost-reflectivity. Responding to requests from various customers and stakeholders, NGM is developing an alternative pricing structure which demonstrates this. However, discussions with suppliers still point to a greater importance being placed on experience, reliability and speed of service response than purely on rental price, recognising that safety remains paramount for such sites. We would still assert, therefore, that the market remains the key driver in setting service requirements and choosing provider for high pressure meter installations.

8. Product and service innovation

Increasingly, market participants are differentiating themselves and increasing meter market share through the added value or facilitation services their business can offer. In addition to recent acquisitions and mergers, the market has seen various partnerships and non-exclusive agreements develop to deliver alternative technology and metering solutions. Supply chain partnerships have enabled some to offer in-house fabrication and delivery of meter housing and infrastructure in order to reduce supply lead times and offer bespoke metering solutions which then include the ongoing maintenance and asset management for the installation. Sub metering, housing renewal and energy management services are available to the customer in various packaged offerings as well as bundled services, ranging from management of the new connection, siteworks and meter installation to adversarial removals. Multi-utility and energy management capabilities have also been used to offer a more end to end or tailored service provision, providing a way in which market participants can differentiate themselves in the services they offer. This has enabled some market participants to leverage electricity metering and the growth in data and energy management requirements to access the gas metering market through a single product offering.

Discussion with our customers has shown that larger non domestic gas suppliers are principally concerned with price and service delivery reliability but increasingly seek a range of products and services to complement metering and asset management capabilities. The market has seen market participants aiming to differentiate themselves from incumbents by offering such services as new connections and siteworks, technical project management and AMR or advanced metering. In some cases, the provision and ongoing maintenance of the gas meter is offered as part of an end-to-end solution, often through gas suppliers' in-house metering businesses, inevitably impacting on the proportion of new installation work available to the market. It is clear that the market now supports a significant number of participants able to provide combined services and that market forces driving the development of products and services demonstrates a healthy degree of both innovation and competition.

9. Conclusion and recommendations

We understand the view that it may not currently be appropriate to lift existing regulatory controls on non domestic metering. We ask Ofgem to undertake market analysis to define and determine the overall size of the non domestic sector and to define how best to segment the market, prior to assessing competition against the tests they detail. In the event that this review demonstrates that there is sufficient evidence of competition, we would then encourage Ofgem to offer clarity on future intentions for the regulation of non domestic metering, including the likely timing and circumstances under which regulation might fall away.

a) Timing

With the transition to smart metering, traditional gas metering markets will undergo significant transformation. Meter exchanges will not always be necessary to facilitate advanced metering or an AMR solution but we expect some traditional meters to be exchanged by competitors to secure advanced metering or AMR market share. We suggest that the smart metering mass rollout may offer a sensible time to deregulate the non domestic market, given current suppliers' licences require meters registering a gas consumption of above 732 MWh to have advanced metering in place by 2014. For remaining non domestic meters, we believe that individual suppliers' smart metering

strategies, coupled with the growth in end to end metering products and services, will create continuing opportunities for competition and diversity in the market.

b) Market Assessment

An accurate assessment of the total size of the non domestic metering market is not currently available and the sectors or categories within the market are not universally agreed. The extent of NG's dominance at present cannot therefore be accurately stated. We suggest that Ofgem should undertake an assessment of the non domestic gas metering market and also provide industry with a standard definition of the sectors within it. Regarding these, we believe that the four non domestic gas metering categories set out in Section 2 provide a simple but clear way forward and avoid distortion due to possible fluctuations in gas consumption which may occur, potentially altering site classification.

c) Monitors of competition in the non domestic gas metering market

NG's current market dominance has not hindered the development of competition; better tests for competition remain market entry and exit, development of new products and services, ranges of pricing and service levels and the behaviour of market participants. We believe existing competition law is sufficient to guard against any abusive behaviour by the incumbent provider and propose the following measures to test levels of competition:

- Number of OAMI approved installers and relevant approval dates
- Number of ASPCoP accredited providers and relevant accreditation dates
- Number of asset managers able to undertake meterworks across pressure tiers
- Number of providers offering combined pipe and meter services, siteworks, AMR, meter provision, meter maintenance
- Range of services and prices offered in the market

We encourage Ofgem and wider industry stakeholders to consider these views. In the meantime, if you have any further questions regarding our proposals, please do not hesitate to contact me.

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