National Grid Metering 2012/13 Pricing Consultation, Initial Proposals, February 2013

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DONG Energy responded to the consultation issued by National Grid Metering (NGM) in November 2012 and is pleased to respond to the revised approach to the pricing of meters.

DONG Energy notes that most of the initial proposals are in line with our views expressed in November 2012. The comments below are restricted to areas where the DONG view is not fully supported by the initial proposals.

Identification of I&C DCM cross subsidy

In it's last response, DONG Energy highlighted our on-going concern regarding the current flawed definition of a Domestic Customer which includes I&C users with a Domestic Credit Meters (DCM) installed. DONG Energy supports the proposed efforts to identify these DCM meters and re-designate them as I&C and we are pleased to note that the initial proposals document acknowledges that circa 900,000 DCM's are installed in I&C premises, taking the original estimated number of I&C meters from 400,000 to 1.3m.

In the proposals document, NGM proposes retaining the cross subsidy between DCM and Pre-Payment Meters (PPM). As DCM meters represent around 70% of meters installed in I&C premises, DONG Energy believes the cross subsidy should not be retained between DCM fitted in I&C premises and PPM as it would seriously distort the true cost of serving the small end of the I&C market.

In conclusion, DONG Energy supports the removal of the cross subsidy between the cost to service DCM and PPM metered customers.

Regulated Assets Valuation (RAV) allocation:

DONG Energy previously commented that there is an opportunity for the RAV to be updated across the NGM portfolio to ensure that it is cost reflective, transparent and fair with respect to the I&C market served.

DONG Energy is ambivalent in respect of the current alternative proposed methods as all methods incorporate the cross subsidy which results in a distorting effect.

DONG Energy urges final discussion between NGM and Ofgem to take account of the removal of the subsidy on I&C DCM when coming to a final decision on the appropriate methodology.

If the existing RAV model methodology is not amended to remove the cross subsidy, DONG Energy agrees that Method 3 would be the favoured option within the I&C market as it allocates the most appropriate RAV value to the I&C market.

Rate of Return (RoR)

DONG Energy commented previously that the RoR should be calculated , under regulatory scrutiny and based on commercial risk and reward which should not automatically be RIIO-GD1.

NGM has assessed that risks around uncertainty in the smart timeline (including variable displacement rates), PPM being slower than DCM and peaks and troughs caused by varying stakeholder strategies equate to a risk premium of 0.72% above any agreed rate of return.

In the initial proposals document, DONG Energy notes that NGM supports the use of RIIO-GD1 RoR and Ofgem is content[1] that sufficient research has taken place and that there are adequate symmetries between the distribution and metering business to use RIIO-GD1.

The use of RIIO-GD1 diverges from the DONG Energy view which would welcome a metering specific calculation, for the NGM metering RoR. However, DONG recognises the regulators guidance in this area.

DONG Energy supports the proposed check by NGM at 2016/17 to ensure that any over recovery of rental is returned in later years if displacement rates fall behind the lower bound case, and trust that this review will be conducted under the auspices of Ofgem and with the involvement of industry stakeholders.

Please return your completed response to the following:	
Email	ngm.priceconsult@nationalgrid.com
Post	Commercial and Regulatory Affairs, 35 Homer Road, Solihull, B91 3QJ

[1] stakeholder presentation, 7th February