AMO response to NGM pricing consultation

1.1. Purpose

This document is the response to the consultation from National Grid Metering dated September 2012, seeking views on the Pricing Consultation – Approach and Pricing Model.

This response is not confidential.

1.2. Background

The Association of Meter Operators (AMO) is a trade association representing the interests of its members. There are twenty members[1] of the AMO who include all of the active electricity Meter Operators and the largest gas Meter Asset Managers. Many of these companies also own significant quantities of metering assets, either directly or through associated companies.

The term Meter Operator is used throughout this document to include both the gas metering term Meter Asset Manager (MAM) and the electricity term Meter Operator.

1.3. Member Involvement

Many of the AMO members are undoubtedly providing their own response directly to NGM or participated in the workshops. This AMO response does not necessarily represent the agreed views of every member on each issue. This response has been prepared by the AMO Consultant on behalf of the AMO members based on views expressed primarily at a meeting of the AMO Gas Metering Forum on the 1st November. The views expressed are therefore drawn from that discussion and the consistent views expressed in related discussions over many years.

The AMO membership is grateful for the on-going dialog with NGM. The AMO membership would welcome the opportunity to provide any further clarification or discussion of any of the issues raised by this response. It may be appropriate to explore some of the issues raised by the consultation with members through a further workshop.

It should be noted that National Grid Metering are a member of the AMO and participated in the meeting when this response was discussed. This response is brief due to the constraints on the AMO in terms of time and resource.

1.4. Key Messages

- The Ofgem hypothesises is that the overall costs to customers of NGM acting alone, as opposed to managing the combined network operators (NGM, NGN, SGN, WWU) regulated U6 portfolio would be reduced. This consultation document does not provide any evidence to demonstrate the truth in the perceived benefit of the creation of a NMM.
- Ofgem and DECC have repeatedly indicated that competitive metering services is the way forward.
  - The further provision of regulated services should cease as soon as possible, the domestic sector will cease from a date in 2014 when all new & replacement domestic (and small I&C) meters will be smart.
  - The new/replacement regulated non-domestic sector should cease as soon as possible, once it is demonstrated that NGM are not dominant in the new/replacement of this market.
- Charges for credit and prepayment metering services should be cost reflective.

[1] www.meteroperators.org.uk/members.php

2. Response

Only some of the questions have been responded to:

2.1. Q1 – competition in the I&C market

There is increasing competition emerging in the I&C market. This competition should be encouraged and will provide a basis for the market going forward. The relevant market share indications are the proportion of new and replacement meters being provided by NGM. NGM will have a large market share of the installed population due to the long effective life of the relevant assets.

2.2. Q3 – credit vs. prepayment

Credit and prepayment meters have a different cost associated with each and fully cost reflective charges/caps should be applied as soon as possible. Cost reflective charges will ensure to that any inappropriate cost bias does not lead to unintended competitive consequences. For example, if NGM prepayment metering service costs are held artificially low, then suppliers may delay the transition of these customers to a competitive service provider. This would delay effective competition but could also unbalance NGM financial forecasts, leading them to undercover the RAV.

2.3. Q4 – NMM obligations

PEMS is a commercial arrangement, therefore any arrangement for newly installed PEMS meters should be subject to commercial negotiation by the parties involved and not subject to the NMM role. Any PEMS post 2014 will become increasing small as suppliers and their metering service providers will have effective coverage of the country for call-out arrangements. The provision of a replaced PEMS meter will have a very different asset value to any other meters within the existing regulated portfolio and therefore should not be treated in the same way as this gives an unfair commercial advantage to network companies over competitive service providers.

It is not clear what will happen to any remaining ‘rump’ of meters remaining in 2020.

The inclusion of regulated meters into the portfolio is postulated by Ofgem on the basis that it reduces the overall cost of managing out the remaining life of a diminishing portfolio of U6 sized regulated meters. Any meters which are larger or were provided under a commercial regime should not form part of this scheme. This is consistent with the frequently restated Ofgem stance that companies that provide competitive meters do so at their own financial risk. It would therefore be totally inappropriate if commercially owned meters, or iGT provided meters, were included into this scheme. If the current owner wish to sell any commercially owned meters then they can do so by agreeing an appropriate market price with a willing purchaser, but this should not result in an increased in a ’regulated asset base’, or increase the size of a predominantly regulated metering business such as NGM.

Any large (above U6) I&C meters provided by network operator companies other than NGM have been provided on a commercial (rather than regulated) basis and therefore should not be eligible for inclusion in the NMM.

2.4. Q5 & 6 – profile & RAV

2.4.1. General

The existing analysis does not make clear the respective costs of NGM acting alone in managing the remaining life of the NGM portfolio, as opposed to managing the NGM portfolio combined with the regulated portfolio of the other regulated network operators (NGN, SGN, WWU). The U6 portfolios of the newer network companies will all be newer meters, which are well before their ‘end of life’ and will not include the regulator issues identified in the consultation document. There is no explanation of the costs for the transition of the portfolio from the other regulated network operators to the NMM, nor the stranded costs of IT and other systems that those regulated companies may wish to recover.

If the Ofgem hypothesises is correct, then the overall cost would be reduced, but this document does not provide that demonstration.

2.4.2. Domestic

The suppliers forecast minimum level is a reasonable assumption, however:

- The forecasts provided by suppliers to DECC, and then used as part of this analysis, are likely to have a significant margin of error. The latest published forecast significantly reduced the number of meters fitted in 2014, with a consequential increase later in the period.
- There is considerable uncertainty around the smart metering programme, and how suppliers will resource the significant work involved. Anecdotal evidence is that suppliers are unlikely to reach the proposed 2019 target. If these targets are not met it not appropriate that NGM should be able to 'profit' from the continued rental of the remaining meters.
- NGM have expressed a real concern about their meters remaining in use after end of their technical useful life. They have a legal obligation (where they are the gas act owner) to ensure the installed population of meters are safe and accurate. Where necessary, in the current market they have the ability to force entry to the premises and replace the meter. Once the smart metering mandate becomes effective this is practically impossible, therefore an approach may be for the a 'premium rental' to be applied to those meters which are deemed to be beyond their life. This rate would escalate rapidly month-on-month and would be intended to incentivise the supplier to prioritise the removal of these meters.
- Any under/over recovery of the forecast RAV identified at a point in the roll-out (say half way) could have a significant impact on the charges for the remaining meters. As the number of meters will have declined any price changes will have a material impact on the remaining small portfolio, which may be unsustainable for suppliers/customers.
- If the NGM charges are significantly different from the charges from other commercial MAPs for existing installed portfolios of 'non-smart' meters then the suppliers may be incentivised to retain (or replace) NGM meters in preference to other meter portfolios. Or vice-versa. This could have material impact on the financial models of other asset provider companies.
- An alternative approach you may wish to consider would be to ensure that the charges were sufficiently high in the early years (say 0 to 5 years) to ensure that the RAV was recovered from a largest population of meters, and once that RAV is fully recovered, then to the rental would reduce for the remaining meters to a 'peppercorn' level which covers the remaining NGM operating costs. The actual reduction date would be dependent on the rate of recovery of the RAV, NGM could publish quarterly stats to indicate the actual removal rate so that stakeholders had visibility of the latest forecast RAV recover date.

2.4.3. I&C

The RAV for I&C and U6 meters should be split. I&C is defined as U16 and above sized meters. U16 and above meters will remain in place for their natural life, but are expected to have a data logger fitted to make them an 'advanced meter'. Whereas the U6 sized metering used for domestic and non-domestic customers will generally be changed for a smart meter. There may remain a small number of U6 sized meters which are part of a non-domestic portfolio where loggers have been fitted prior to 2014. Over time even these will be replaced by U6 smart functionality meters, although they may operate 'opted out' of DCC.

The only reason for the new/replacement larger meters to remain as part of the "regulated activity" is that the NGM market share is believed to be significant. There is no need for the remaining assets to remain regulated if the market can be deemed to be competitive. If NGM wish to continue operating in the non-domestic sector then they should do so on the same basis as competitive metering companies and without any cross-subsidy from the U6 sector.