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British Gas
Looking after your world

By email

2 November 2012

Metering pricing consultation

Dear Abigail

British Gas welcomes the opportunity to respond to your recent pricing consultation. Please find below our responses to your questions. These are not considered confidential.

We look forward to National Grid's final proposals and urge you to publish them as soon as possible.

If you have any questions, please contact me.

Yours sincerely

David Speake

Regulatory manager

British Gas
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Appendix 1 – Consultation questions

Name/Organisation:	**David Speake**
	British Gas

Q1: Do you believe that competition is already effective in the I&C market? What, if any, regulatory controls do you think are appropriate?
Yes. There are a number of companies operating within the I&C market at present. BG are in fact currently preparing an RFP to consider replacing National Grid's legacy portfolio of large meters with an alternative meter containing embedded AMR technology. NG will be invited to tender. If regulation is introduced and current prices are reduced as a result, there will be little room for these newer organisations to compete. We do not believe that concerns are sufficient to warrant intervention in the I&C metering market. There has been a lack of clarity around the potential impact of the proposals on the I&C meter portfolios which has made the process more difficult than it needed to be.

Q2: Do you agree that the retention of tariff caps remains an appropriate approach to regulating domestic metering charges?
Yes. NG is offering a suitable alternative commercial solution to suppliers to enable suppliers to best choose an option that facilitates the transition to smart. The price caps protect suppliers who opt not to enter the alternative commercial terms.

Q3: Do you agree that adjustments should be made only to the domestic credit meter tariff cap and that the tariff cap for prepayment metering should continue to be constrained in line with the current price control?
British Gas is supportive of a cost reflective approach to metering. We believe this should be applied to both the regulated P&M contract, N&R contract and the New Legacy MSA contract Considering the findings of Ofgem's ROMA exercise, we are surprised that there has been no work undertaken to present a more cost-reflective tariff for pre-payment meters. Whilst we understand the need to consider vulnerability, we suspect that the existing NG cap has a detrimental effect on third party providers who may be looking to provide alternative innovation in this market but are prevented from doing so. Full coverage of pre-payment customers with smart meters remains some years away. We also recognise the difficulty that the cap causes for the other regional gas distributors.

Q4: Do you agree with our descriptions of the B-MPOLR and NMM obligations and assessment of their likely duration?
Yes. But we believe this should be subject to ongoing review throughout the smart roll-out period. We note that work in this area is only beginning, and that the principles as currently set out are sound, in due course we will be interested to understand the mechanisms for adoption by NG of third party 'dumb' portfolios, and the level of involvement of suppliers in this negotiation process. It will never be appropriate to allow one party to pass on risk to another without sufficiently

compensating that party.

Q5: Do you consider our use of the DECC Lower bound-case for meter displacement rates to be reasonable? Is there any basis for assuming any other displacement rate and if so, why? Do you think that the roll-out will specifically identify particular meter types for early displacement and if so why?

Suppliers are mandated to exchange all dumb meter by December 2019. We will be appropriately incentivised to meet these targets, which will include penalties for failing to do so.

Given that the higher bound option is the only option which achieves the target, BG feels this is the most valid scenario. We would however suggest that a hybrid with a slower start and accelerated finish is more likely.

Whilst we will be attempting to optimise the rollout by exchanging older meters first, to start with it will be driven far more by the practicalities of available technology and infrastructure, and by customer demand. Initially, this will rule out meters in large building and certain remote areas where comms signals are weak, for example. It may also rule out properties where BG supplies only to the gas meter.

Q6: Which of the RAV allocation methodologies described do you believe is the most appropriate? Please indicate your reasons if a preference is expressed.

We have found it very difficult to assess the various allocation methodologies in light of the lack of numerical examples given as part of the consultation. Preferences will generally be expressed to reflect a commercial position. In this case, we have been unable to understand the commercial implications sufficiently to indicate a preference.

BG would be supportive of an approach which delivered the following outcomes:

1. Minimal disruption or shock to the existing domestic and I&C prices
2. An appropriate level of recovery for NG on meters removed before the end of their useful life
3. If possible, complete separation of the issues relating to the rundown of traditional domestic metering from the suggested concerns around I&C metering competition

We can make some further high level comments

1. BG supports NG's assessment that Option 1 is perhaps the least appropriate of the options presented.
2. A focus on the domestic RAV may be appropriate as a starting point. This is the portfolio that is being addressed by the proposals, and the assumptions for these meters can be ring fenced and fixed. Option 4, for example, could be approached from the domestic end rather than the I&C end.
3. We accept that none of the options can be proven to be perfect, owing to varying degrees of subjectivity of the inputs. With this in mind, there is a case to made for avoiding complication. BG is concerned at the potential for a lengthening of the time required to bring this matter to a close. A couple of the options suggest a requirement for detailed work, the outcome of which may either be identical to the simpler options, or so subjective as to be of little additional value.

In short, we support coming to an answer quickly, and minimal shock to the market, over incremental steps towards the perfect answer.

Q7: Do you agree that the regulatory return allowed for the Distribution business remains the most suitable basis for establishing the rate of return for metering or should a higher rate be applied?

BG does not see any compelling reason to change the current rate of return.

Q8: What requirements do you have for services to support the management of traditional meters (query handling, call management, complaint handling)? What level of service would you expect to receive?

BG would expect all existing services to remain at existing service levels subject to ongoing review as the contract winds down. For example, we would probably expect increased levels of communication and co-ordination in NG's management processes, to cater for our requirements to re-route exchanges of faulty traditional equipment to our smart meter installation processes. There will need to be a greater degree of integration of NG and supplier processes, with work 'handed over' in a number of circumstances. This suggests that while field operations for domestic meters will wind down, support functions will need to adapt and become more collaborative.

Q9: Do you agree with our assessments of future workload? If you have alternative views please outline where they differ.

We believe that NG is best placed to make this assessment, but that predicted workload looks to be reasonable. We would expect this to be subject to ongoing review.

Q10: Do you anticipate any specific requirement for changes to industry data flows or arrangements for traditional meters?

We do not anticipate any changes that relate exclusively to the proposals made under this consultation. We note the extensive work ongoing under the DECC programme to address such requirements.