

DONG Energy response to National Grid's consultation 'Approach and Pricing Model', November 2012

DONG Energy is pleased to respond to National Grid's consultation on its revised approach to the pricing of meters. DONG Energy responded to the preliminary consultation issued by National Grid Metering (NGM) in September.

DONG Energy is one of the leading energy groups in Northern Europe. This spring, we established DONG Energy Sales UK which has an annual supply of around 2.5 billion cubic metres of natural gas.

We have responded to each of the consultation questions (see attached) pertaining to I&C market. However, we would like to draw attention to our principal concerns:

Firstly, in our view, the definition of 'domestic' is flawed as it is currently too broad and not sufficiently specific, which will cause uncertainty and inefficiencies going forward (particularly with reference to the Smart Metering Implementation programme). The Ofgem Gas Supply Standard Licence Condition define a domestic customers as follows:

'Domestic Customer means a Customer supplied or requiring to be supplied with gas at Domestic Premises but excludes such Customer insofar as he is supplied or requires to be supplied at premises other than Domestic Premises'

DONG Energy has a licence to supply gas to non-domestic customers only. We would welcome consistent definitions to ensure that each market, domestic and non-domestic, is appropriately served. In addition, smart meter licence conditions concerning 'domestic' and 'non-domestic' customers are in the process of being approved and consistent definitions will ensure that there is no confusion by the supply or customer community.

Secondly, we strongly believe that this an opportunity for the Regulatory Asset Value (RAV) to be revisited and recalculated in a transparent manner,

DONG Energy embraces the ongoing and future rollout of smart and advanced meters and the anticipated improvements to manage and reduce energy demand by consumers. We recognise and appreciate the challenges associated with this transition, the reduction in traditional metering and the consequential impact on NGM. However, we believe that this also offers an opportunity to invigorate the market for (I&C) metering supply with the consequential benefit of increasing competition within this market.

Consultation questions

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Q1: Do you believe that competition is already effective in the I&C market? What, if any, regulatory controls do you think are appropriate?

In its consultation, NGM states that '*competition is already effective in the non-domestic metering market and that explicit regulatory controls beyond normal competition law requirements are no longer necessary*'.

DONG Energy is inclined to support the view that, overall, there is adequate competition in the market. However, we would like to see meter assets being more transparently priced and cost reflective with associated granularity of pricing.

Due to NGM's current market position, a price change in any direction would have serious market impacts, therefore a regulatory price control needs to be imposed on NGM, this would give competitors certainty to develop their business plans and pricing strategies and encourage stability in the I&C market.

Q2: Do you agree that the retention of tariff caps remains an appropriate approach to regulating domestic metering charges?

In our view, the definition of 'domestic' is flawed as it is currently too broad and not sufficiently specific. The Ofgem Gas Supply Standard Licence Condition defines a domestic customer as follows:

'Domestic Customer means a Customer supplied or requiring to be supplied with gas at Domestic Premises but excludes such Customer insofar as he is supplied or requires to be supplied at premises other than Domestic Premises'

DONG Energy has a licence to supply gas to non-domestic customers only. We would welcome consistent definitions to ensure that each market, domestic and non-domestic, is appropriately served. In addition, there are clearly different requirements by the domestic and non-domestic sectors e.g. meters on non-domestic premises do not:

- need to be prepayment meters
- require a remote disconnection valve
- need to be smart
- require NMM services (see Q4).

In its consultation, NGM is explicit that as traditional metering is displaced occurs, reductions in economies of scale and additional strains caused by wholesale change are likely to result in a higher cost to serve per meter unless efficiency savings can be found. NGM proposes that charges for regulated services need to be at a level to support the provision of efficient and reliable services for our customers and consumers. In addition, during the workshops, NGM

confirmed that the treatment of domestic and non-domestic of U6 meters would remain under the same price control, leading to an increase from £16.07 to £19.54 per annum to reflect the rising costs of managing the reducing asset base (based on the DECC lower bound case).

Notwithstanding our comments regarding the appropriate definition of 'domestic' customers, we believe that a tariff cap is appropriate for domestic and non domestic U6 meters due to the falling economies of scale in the non-domestic sector.

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?

As a non-domestic, I&C supplier, DONG Energy does not support prepayment meters for its customers. However, we would like to understand further the impact of rollout delays on prepayment enabled smart meters on the cost of I&C meter rental as there could be no cross subsidy.

Q4: Do you agree with our descriptions of the B-MPOLR and NMM obligations and assessment of their likely duration?

Ofgem has confirmed that it intends to introduce licence changes in 2013 to facilitate the introduction of the B-MPLOR¹ and NMM² obligations. It is anticipated that the sunset clauses will be linked to key events in DECC's smart metering process.

NGM assumes that B-MPLOR obligations will cease with effect from April 2015. Its metering approach to B-MPLOR is based on ensuring that there is sufficiency of capability and capacity to meet estimated future demand using smart meters. The NMM entails the ownership and maintenance of any meters fitted under the B-MPLOR obligation (together with the ongoing maintenance of existing meters) and will remain in force for the duration of smart meter rollout. NGM therefore anticipates that NMM obligation will fall away by 1 April 2020.

As mentioned in response to Q2, NMM arrangements are separate for non-domestic, I&C customers. If there is not a clear definition made between domestic and non-domestic premises, then it will not be possible for the NMM to clearly define its scope of responsibility.

DONG Energy is able, if requested, to provide details of all domestic type meters used by their customers under business contracts if this is helpful in the segregation of the asset base.

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?

Pragmatically, DONG Energy supports the DECC lower bound-case for meter displacement rates. However, we have some concerns that meter replacement may be left until too late to meet the 2019 deadline. We therefore suggest that there should be an additional trigger date built into the timescales for the assessed of the adopted cost base to review meter roll-out at either 30% completion or end 2015, whichever is the earlier.

¹ Backstop-Meter Provider of Last Resort

² National Metering Manager

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

DONG Energy believes that, with the rollout of smart meters, there is a real opportunity for the Regulatory Asset Value (RAV) to be updated across the NGM portfolio. DONG Energy believes that the RAV needs to be revisited to ensure that it is cost reflective, transparent and fair with respect to the market served.

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?

See comments above, regarding the RAV. DONG Energy considers that the Rate of Return (RoR) should be calculated independently, under regulatory scrutiny and based on commercial risk and reward.

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?

DONG Energy sees no reason why the current levels of service should not continue to be offered to support traditional meters, although it would be helpful if I&C suppliers had a choice of replacement U6 meters, e.g. U6 dumb meter, U6 pulse meter ready to support AMR or a U6 smart meter to enable more effective management of our business.

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

In our view, the domestic workload is likely to increase with the rollout of smart meters, which could, potentially, require more administrative staff. Likewise, we believe that the levels of traditional faulty meters should decrease particularly if meters identified for replacement under the NGM Holistic Asset Management process are prioritised for early smart deployment.

We are also of the view that there has not been sufficient thought or accommodation made for the installation of SMETS compliant meters of the remedial work for NMM installations in dealing with faulty Smart installations.

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

We would encourage any consultations or communications in respect to changes to data flows to include the supplier community. We also believe that there should not be any fundamental changes the current RGMA protocols.

Please return your completed response to the following:

Email	NGM.priceconsult@nationalgrid.com
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Post	Commercial and Regulatory Affairs, 35 Homer Road, Solihull, B91 3QJ
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