Abigail Cardall
Regulation Manager
Commercial and Regulatory Affairs Team
National Grid
35 Homer Road
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Dear Abigail

Please find below our response to the 2012 gas metering pricing consultation.

At high level, we would like to make a few points;

It should be recognised that neither the Domestic Credit Meter nor the Industrial and Commercial MAP are competitive or have the core characteristics of natural monopolies (expect for specifics such as provision of last resort).

Therefore we continue to believe that regulatory oversight of Meter Asset Provision (MAP) is essential, and that Ofgem should at least monitor closely this consultation.

Ongoing commercial arrangements will need to be monitored and be flexible in the light of changing displacement rates, particularly with regard to developments in smart meters.

After mitigation, the risk costs faced by National Grid in MAP are relatively low, and this should be reflected in commercial charges (with regulatory oversight) and tariff caps.

This response is not confidential.

Yours sincerely

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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?
No. NGM have a circa 90% market share. The minimum Herfindahl–Hirschman index of 8100 compares with the “highly concentrated” threshold generally set at 1800. A market share exceeding 35% is generally regarded as dominant. Industrial and Commercial meters do not appear to us as fitting the characteristics of a natural monopoly and therefore this share should be viewed as a cause for concern. At the very least, we believe that regulatory oversight of Meter Asset Provision rental is required. In addition the barriers to competition should be reviewed and addressed. These are similar in nature to those in the residential market.

Q2: Do you agree that the retention of tariff caps remains an appropriate approach to regulating domestic metering charges?
Yes. The key characteristic of the meters in question is age, and yet the existing tariffs do not reflect the age of assets across individual supplier portfolios. Tariff caps can at least reduce the effect of this. However in the absence of effective tools for exiting existing arrangements e.g. transfer of title (MAP to MAP), tariffs remain the only method of control.

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?
Yes the DCM cap should be adjusted *Yes the PPM tariff cap should remain* We believe that greater visibility of costs is desirable, not least to prevent cross subsidies

Q4: Do you agree with our descriptions of the B-MPOLR and NMM obligations and assessment of their likely duration?
Yes. The obligations should be reviewed annually as the rollout of smart gas meters pre and post DCC go-live and mass rollout. Where appropriate as indicated by the review, the price control charges should be adjusted continuously to reflect the original intent.

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?
Yes the lower bound case is reasonable The individual treatment by suppliers of stranding and other costs, and accounting, may drive the displacement rates away from original estimates. Overall then, the approach should remain flexible.

Q6: Which of the RAV allocation methodologies described do you believe is the most appropriate? Please indicate your reasons if a preference is expressed.
Option 4. It is likely that a more accurate assessment can be made of the I&C portfolio because of numbers and profile. This therefore it removes any inaccuracy from linking it to the Domestic portfolio.

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?
No. We do agree with the general principle of regulatory return and that this should follow the established principles of charging for risk. We do not necessarily support the actual figures used for distribution businesses (for reasons that we do not cover here) and in any case regard the risks faced by National Grid in metering high have significant differences to those of distribution businesses. Hence the numbers cannot simply be ported over. The actual regulatory returns should reflect prior returns in the asset values (i.e. the return should take into account the whole life cycle of the meter stock rather than allowing one meter to earn over two projected lifetimes), and recognise the significant limits on forward looking risk. Finally, the diversification benefits attainable by National Grid should at least flow partially to consumers.

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?

Q9: Do you agree with our assessments of future workload? If you have alternative views please outline where they differ.
We do not disagree but believe that this could be highly variable and highly dependent on smart. Therefore future workloads will require as much flexibility as possible and should be informed by ongoing monitoring to check and change assumptions

Q10: Do you anticipate any specific requirement for changes to industry data flows or arrangements for traditional meters?
Asset tracking for MAPs, and MAP tracking for suppliers are key. These developments are underway