Abigail Cardell
Regulation Manager
Commercial and Regulatory Affairs
35 Homer Road
Solihull
B91 3QJ

Ngm.pricingconsult@nationalgrid.com

Wales & West House
Spooner Close
Celtic Springs
Coedkernew
Newport NP10 8FZ

Tŷ Wales & West
Spooner Close
Celtic Springs
Coedcernyw
Casnewydd NP10 8FZ

T. 029 2027 8500
F. 0870 1450076
www.wwutilities.co.uk

2nd November 2012

WWU response to National Grid Metering 2012 Pricing Consultation

Dear Abigail,

Wales & West Utilities (WWU) is a licensed Gas Distribution Network (GDN) providing Gas Transportation services for all major shippers in the UK. We cover $^{1}/_{6}^{th}$ of the UK land mass and deliver to over 2.4 million supply points.

Question 1: Do you believe that competition is already effective in the I&C market. What if any regulatory controls do you think are appropriate?

Wales & West Utilities currently offers an I&C metering service; however since May 2011 we have not installed any I&C meters at new installations. Inasmuch as we do not experience demand for our services this suggests that there are other service providers in the market that are more attractive to suppliers.

Question 2: Do you agree that the retention of tariff caps remains an appropriate approach to regulating domestic metering charges.

If there is a last resort obligation within the Gas Transporter Licence to provide meters, networks must be able to recover efficient costs.

Under the current tariff cap arrangements our analysis suggests that the WWU prepayment tariff caps meters are subsidised by credit meter tariff caps. One significant issue is the composition of the small WWU population compared to the large industry average population.

Overall the industry population of domestic meters is about 10% prepayment. The WWU population is different. Since Network sale in 2005 about 40% of the last resort meters WWU provided were prepayment, in 2012 this has risen to 50%.

This may suggest that suppliers are preferentially obtaining prepayment meters from us as the last resort service provider and obtaining credit meters from other sources.

Since metering is a supplier obligation it would be more appropriate to place tariff caps on suppliers and to remove the tariff caps from transporters. This would allow transporters to charge cost reflective prices, suppliers would then be exposed to the true cost of prepayment meters and could then decide on the appropriate ways to manage customers' payments.

The lack of cost reflectivity within the network Tariff capped rate for WWU prepayment meters may be promoting over utilisation of Prepayment meters.

Question 3: Do you agree that adjustments should be made only to the domestic credit meter tariff cap and that the prepayment metering should continue to be constrained in line with the current price control.

No we do not agree with this approach. Please see the response to question 2 above.

Question 4: Do you agree with our descriptions of the B-MOPLR and NMM obligation and assessment of their likely duration?

Backstop Meter Provider of Last Resort

We agree that the description of the B-MOPLR role as being a license obligation on National Grid Gas (which it will deliver through NGM) to provide a contractual service to fulfil the MPLOR obligation of other GDNs is a correct interpretation of Ofgem's intentions; however think that it is not the most efficient option. Its main disadvantage is that the regulatory burden remains with the GDN that uses the B-MPOLR.

A better solution would be for the GDNs that opted in favour to have the MPOLR obligation removed and for National Grid Metering (NGM) to take on the MPOLR obligation for those GDNs.

This would result in

1. a decrease in NGM's obligations as they would no longer have to provide contractual information to the GDN.
2. a reduction in regulatory burden on the GDN as the GDN would not longer have to monitor NGM's performance and bear the risk of a licence breach caused by a failure of NGM.
3. removal of the risk of both the GDN (through its MPOLR obligation) and NGM (through its B-MPOLR obligation) being held liable for the same breach.

We do not believe that there needs to be any transition period whereby the B-MPOLR and MPOLR obligations exist after the commencement of smart meter rollout. Suppliers will have had sufficient time to prepare for smart meter rollout and should be able to fulfil their obligations. NGM may consider it reasonable to continue to offer last resort meters on a voluntary basis for a period after the commencement of rollout but there should be no obligation to do so.

National Meter Manager (NMM)

We agree that the interpretation of the NMM obligation to adopt traditional meters owned by other GDNs or other meter owners is a correct interpretation of Ofgem's intentions but believe that this obligation is too wide and will increase the costs of the NMM.

We believe that:

1. The NMM should only have to offer to adopt meters installed under the last resort obligation
2. There should be a one off opportunity to have meters adopted when the NMM is set up.

We deal with each of these in turn below.

Only adopt meters installed under last resort obligation

Meters installed under the last resort obligation were installed under a regulatory requirement, other meters were installed as a commercial offering at commercial rates by parties who could agree terms that reflected the risk each party was facing, for example by having premature removal charges.

The concept of NMM was introduced to deal with the issue of meters owned by GDNs that were installed under the last resort obligation and which may not be economic for them to manage and which may require them to set up an in house MAM. The position of commercial meter owners is completely different in that they had no obligation to provide meters and could have terms that gave them cost reflective charges and protected themselves from the risks they faced. They should not be able to benefit from a regulatory solution to a situation that only exists because at network sale, in 2005, the sold networks kept the last resort obligation; in retrospect a more sensible solution would have been to introduce the B-MPOLR obligation on National Grid Gas at network sale.

One off opportunity

If the NMM is required to adopt any traditional meters at any time it will need to develop more complex models, this seems unreasonable as GDNs should be able to make a one off decision as to whether to transfer their meter stock to the NMM at the appropriate time. Only allowing a one off opportunity will also prevent gaming by parties transferring part of their meter stock immediately (for example prepayment meters) and keeping then transferring the remaining meters at a later date.

Question 5: 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 rates and if so, why? Do you think that roll-out will specifically identify particular meter types for early displacement and if so why?

NGM clearly has to use some sort of “official” rollout assumption and using the DECC Lower bound figures rather than other more aggressive assumptions is sensible; however we think that suppliers may even struggle to meet the lower bound targets.

Question 6: Which of the RAV allocation methodologies described do you believe is the most appropriate? Please indicate your reasons if a preference is expressed.

We comment on each option in turn

1 An allocation that preserves the current relationship between tariffs for domestic and I&C metering services
We agree with NGM that this does not reflect the intention that vitruallly all domestic meters will be removed by 2019, whereas I&C meters will continue in service beyond 2019.

2 A pro-rata allocation of the 2012 metering RAV based on the current depreciated replacement cost values of the domestic and I&C meters
We agree with NGM that this would require an estimated cost for the replacement of all types of metering assets and this would be difficult for the more complex I&C installations, which while relatively small in number can be high in value. This option may also take a significant time to deliver if site visits are required.

3 A pro-rata allocation of the 2002 metering RAV based on the depreciated replacement cost values of the domestic and I&C assets in 2002, and rolled forward separately usign the same depreciation and capitalisation policies adopted for the metering RAV as a whole.
We can see the attraction of this approach as it is available and understood; however we also recognise NGM's point that the purpose for which it was developed, namely the removal of business rates from the metering charges, was a much smaller issue that the question of splitting the RAV between domestic and I&C metering.

4 An I&C RAV consistent with the depreciated replacement cost value of I&C meters, taking into acocunt realistic depreciation lives, leaving the residual RAV with the domestic.
We agree that this is essentially a variation of option 2 without the valuation of the domestic RAV which, under option 4, is obtained be subtracting the I&C RAV from the total RAV. Like option 2 it requires the estimation of the replacement costs of I&C installations and suffers form the disadvantage of option 2.

5 An allocation consistent with tariffs for I&C metering services being at a competitive level neither too high nor so low that competitors will be unable to compete, leaving the residual RAV with domestic metering
This is the most attractive option; however there are practical problems in establishing the appropriate level of tariffs and we also acknowledge that it depends on the future growth or otherwise of NGM's I&C business.
NGM propose a simplifying assumption which is to evaluate the the value of the currrent RAV taking only existing I&C assets with I&C rental values set at a level to mitigate premature removal (before 20 years of service) of those assets. NGM state that this may overstate the life of meters and therefore overstate RAV as they are experiencing increasing competition and premature removal of some meters. We note that despite this NGM believe that this approach provides a "fair value" approach to valuing those already existing I&C assets.
We note NGM's comment on premature removal; however, while we accept that this does occur, we suggest that it is more common at the less complex end of the I&C market, it is much less common on the more complex installations and there are a number of sites that have meters and ancillary equipment which are in excess of 20 years old.

Question 7 Do you agree that the regulatory return allowed for the Distribution businness remains the most suitable basis for establising the rate of return for metering or should a higher rate be applied?

The allowed rate of return should reflect any additional risks faced by the metering business, this risk may differ between the domestic and I&C metering businesses.

Question 8: What requirments 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?

We would expect the current standards to be maintained.

Question 9: Do you agree with our assessments of future workload? If you have alternative views please outline where they differ.

As stated in our answer to question 5 we believe that the modelled rollout figures are not likely to be achieved, the impact of this will then feed through into the future workload.

Question 10: Do you anticipate any specific requirements for changes to industry data flows or arrangements for traditional meters?

The rollout of smart meters has a number of implications for PEMS for traditional meters and smart meters that the industry needs to address; however we acknowledge that this is outside the scope of this pricing consultation.

Yours sincerely

Steve Edwards
Head of Commercial and Regulation
Wales & West Utilities