

Preliminary Stakeholder Consultation

National Grid Metering 2012
Pricing Consultation



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Foreword

National Grid manages electricity and gas Transmission and Distribution networks in both the UK and US. It provides gas transportation, metering and daily meter reading services throughout Great Britain for companies that supply domestic, industrial and commercial consumers. National Grid is an Ofgem Approved Meter Installer (OAMI) and registered Meter Asset Manager (MAM) and provides a range of meter provision, installation and maintenance services. For further details of these services please contact the National Grid Metering commercial team via email at **metcom2@nationalgrid.com**. National Grid Metering is a subsidiary of National Grid and National Grid Gas, (NGG) providing metering services to around 15 million of National Grid Gas's traditional gas meters within the regulated gas market.

This consultation document focuses on National Grid Metering (NGM) as we undertake National Grid Gas's metering obligations as set out in their Gas Transporter Licence. It is the first in a series of engagements which will be used to help shape our regulated pricing proposals for 2013 and beyond. These will then be agreed with the energy regulator, Ofgem, and will form the framework for traditional (non-smart) metering services and charges to the end of the smart meter mass roll-out period (or such other period as may be agreed as part of this consultation).

1 The transition to smart meters



In this document, we highlight some of the challenges the smart metering roll-out will create for the gas metering industry over the next eight years. We ask a number of questions about the pricing consultation process we will be conducting later this year, to which you are invited to respond.

Section One sets out the context in which the traditional gas metering sector will operate in the transition to smart metering and the key points of Ofgem's Review of Metering Arrangements (RoMA). Section Two outlines our high-level approach to our forthcoming pricing consultation and the factors that we believe are likely to influence it. Sections Three and Four explain why we value your views and how we would like to ensure we adopt the most effective methods in gathering them. Section Five gives further details of how to respond to this document.

We would welcome your views on any aspect of our metering service, its charges or the approach we take to our pricing consultation. Please send your comments via email to NGM.pricingconsultation@uk.ngrid.com. This publication is also available from our website <http://www.nationalgrid.com/uk/Metering/PricingConsultation/Documents>





The smart metering roll-out will see the replacement of domestic and small non-domestic traditional gas meters for new, smart technologies by the end of 2019. This will create challenges associated with the transition and the associated reduction in numbers of traditional meters. It will also change the nature of some of the activities undertaken under the current regulatory framework as traditional metering becomes a smaller, more marginal activity.

In the transition to smart metering, we believe NGM has a vital role to play in the management of traditional gas metering services. We want to help guide the orderly transition to a world where homes and businesses will have smart gas meters, whilst maintaining appropriate services for traditional meters yet to be replaced.



Our focus will also see us developing strong relationships with our stakeholders and continuing to deliver excellent customer service and customer satisfaction:

- We are ready to play our part in the roll-out of smart metering technology, which will enable networks, suppliers and consumers to manage energy usage better.
- We will maintain a robust and flexible business to deliver the services our customers require in a changing environment.
- We will not lose sight of the need to maintain our focus on improving our customers' experience and delivering high standards of service.
- We will always prioritise the safety of our own employees and the safety of the general public when planning and undertaking our operational activities.

2 Review of Metering Arrangements



2.1 Introduction

We accept Ofgem's invitation to undertake the role of the National Meter Manager (NMM), together with the new obligations this role includes. Our pricing consultation will be based on these terms and will be developed against a number of other areas. We will provide more details of these prior to the actual Pricing Consultation period.

2.2 Pricing Consultation key issues

We think that the principal issues our proposals will need to address will include the following:

2.2.1 The rate of smart displacement

The cost of providing traditional metering services will change as populations diminish. Traditional meter asset lives, particularly for new or replacement meters, will on average be shorter prior to their replacement by a smart meter. Changes in the rate of the transition to smart meters will have an impact on both of these factors. We also need to consider what level of traditional metering might still be needed at the end of the planned smart roll-out period.

2.2.2 Agreeing the allocation of the Regulatory Asset Value (RAV) for our Domestic and Industrial & Commercial (I&C) businesses

The transition to smart metering has different consequences for domestic and I&C meters. We need to ensure that the Regulatory Asset Value of our overall business is appropriately allocated to reflect the different paths the two sectors will follow once smart roll-out gets underway.

2.2.3 The role of the NMM

The NMM role centres on a national obligation for domestic meter services to be provided on request (Meter Provider of Last Resort or MPOLR). We need to understand what taking on this commitment might look like and how many meter installation requests it might generate before the obligation falls away. This, too, is dependent on the start date of mass roll-out. We also need to

consider the types of meters being requested – prepayment meters are generally more expensive to install and maintain than credit meters so the ratio in the overall meter population will be important.

2.2.4 Pricing and the duration of obligations

The level of NGG's metering charges is regulated by a price control set by Ofgem and must not exceed tariff caps set against four key services, three of which are undertaken by NGM:

- Provision, installation and maintenance of domestic credit meters
- Provision, installation and maintenance of prepayment meters
- Domestic credit to prepayment meter exchanges

Regulated prices (tariff caps) are set based on the costs to deliver the services needed and an appropriate rate of return on the agreed Regulatory Asset Value. They also need to represent efficient and reliable services our customers and consumers can depend on. The actual timeline for the smart meter roll-out is not yet clear so we need to consider how changes to this date might affect our model.

2.2.5 Requirements for other services

We expect to continue to provide high quality support services to manage traditional meter stocks. We want to understand our customers' requirements for such services as query handling, contact management and delivery of overall standards in designing the future size and capability of our business.

3 Your views



We are changing the way that we listen to our stakeholders to ensure your views are central to shaping the future of our business and the transition from traditional metering.

3.1 Why are we consulting?

We recognise the need to engage our stakeholders even more than before. We intend to engage as wide a stakeholder audience as possible as a result.

This autumn, we will be consulting stakeholders on some fundamental questions about what you would like National Grid's metering business to deliver. It is important we understand your views on these vital questions to allow us to balance all stakeholders' views on the importance of our role, both as the future NMM and as the largest asset owner and manager of traditional gas meters in the UK.

In order to make the consultation as inclusive, transparent and effective as possible within existing time constraints, we are now undertaking a brief preliminary consultation. This will help us to understand how best to shape the forthcoming pricing consultation activities. We anticipate holding face-to-face discussions with stakeholders to discuss our proposals in more detail. We would also be interested in holding group seminars to enable a wider, direct debate between stakeholders. This document also supports the pricing consultation process by enabling stakeholders who do not wish to meet with us or attend group seminars to give us their views and indicate how they would like to be engaged.

3.2 Existing stakeholder consultation and engagement

We currently consult on various aspects of how we operate, especially in respect of particular technical and operational areas of our work. Examples of existing consultations and other stakeholder engagement we undertake are as follows:

- Customer Satisfaction surveys
- Gas shipper/supplier open days
- Input to many industry bodies and working groups
- Regular discussions with customers

3.3 How is this consultation different?

The existing consultation and engagement we undertake typically involves members of the energy industry only or focuses on specialist areas. We would like the forthcoming Pricing Consultation stakeholder engagement to be different because it will be asking a much wider range of stakeholders questions about what they want us to deliver. The consultation this autumn is particularly important because the responses will be used to shape our services and pricing for several years to come (2013/14 to 2019/2020). It is also important for our regulator, Ofgem, to be confident that we have listened to our stakeholders' views in shaping the proposals we will put to them.



4 Preliminary stakeholder consultation



4.1 Consultation questions

The questions to which we would like you to respond for this preliminary stakeholder consultation are as follows:

Regulatory Price Controls

Q1: Before you read this document, were you aware of regulatory price controls and tariff caps? If so, what is your understanding of them and what do they mean to you?

Q2b: If you would like to be involved in the consultation process going forwards, would you prefer to respond as an organisation / individual or feed into a stakeholder group? Please provide details.

Who should we talk to?

Q2a: Whose views do you think we should seek as part of our stakeholder consultation? Please list all the organisations, types of organisations and individuals you think we should contact.

Here is a list of stakeholder groups we think we should talk to as part of the consultation:

- Consumer groups
- Consumer Focus
- Independent Gas Transporters
- Gas Distribution Networks
- Utility Infrastructure Providers
- Public services – e.g. local authorities and NHS
- Industrial and commercial customers
- Domestic customers
- Industry groups
- Health and Safety Executive
- Ofgem
- Department of Energy & Climate Change (DECC)
- Pension fund trustees
- Shippers/suppliers of gas
- Supply chain partners
- Trade unions

How should we consult our stakeholders?

Q3a: What methods and tools would you expect us to use in order to engage stakeholders in the consultation?

Here is a list of methods and tools we are considering using as part of the consultation this autumn:

- Individual meetings
- Group seminars
- Webinars
- Information on our website
- Consultation materials (documents, fact sheets, presentation, etc)

Q3b: What methods and tools would you prefer to use to provide us with your views? Please state your preferences and give reasons for each.



What should we be talking to our stakeholders about?

Q4a: What themes would you expect the stakeholder consultation to cover? Please outline why you think each is important.

We think our consultation should cover

- Traditional meter displacement rates to achieve the smart roll-out timetable
- RAV allocation methodologies for our Domestic and I&C businesses
- The specific role and obligations of the National Meter Manager
- Meter provision and metering services prices
- The period to which the pricing determination should apply
- Provision of supporting services

Q4b: What further themes should we include in our consultation? Please outline why you think each is important.

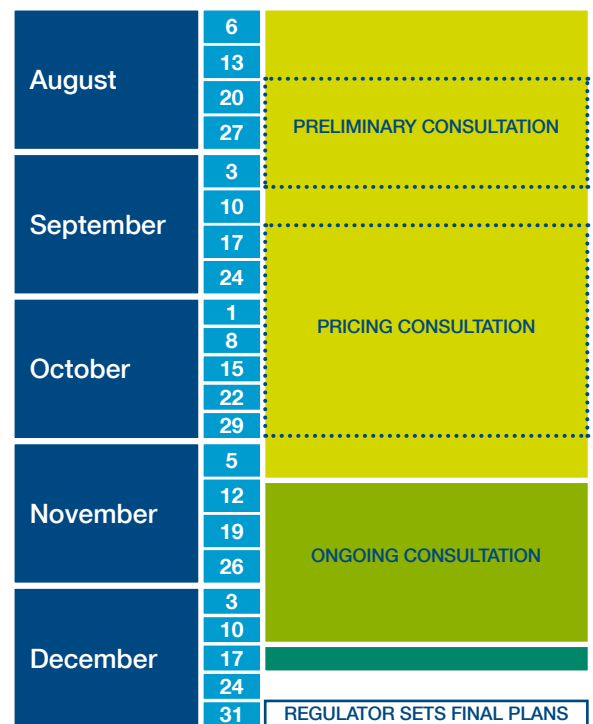
Q4c: What questions would you expect us to ask in our consultation under each of these themes? Why do you think these are important?



When should we consult?

Q5: Below is a proposed timeline, with the stakeholder consultation planned to take place during September and October this year. Do you think the proposed timeline should be changed in any way? If so, please give reasons for the suggested change.

2012 Timeline



- Develop business plans
- Discuss detailed plans with Regulator
- Deliver Final Proposals

Any other comments?

Q6: Please let us know if you have any other thoughts or comments on the points raised in this document or if you would like to highlight any other issues you consider important.

5 Next steps



5.1 How to respond

Thank you for taking the time to read this document. Please email us with your responses to the questions using the questionnaire provided and to the email address shown. Alternatively, you can post your completed questionnaires to us. Additional copies of this document are also available on our website.

Email us:

ngm.priceconsult@nationalgrid.com

Write to us:

Commercial & Regulatory Affairs Team,
35 Homer Road, Solihull B91 3QJ

Call us:

Abigail Cardall
(Regulation Manager)
0121 424 8397
Kirsty Scott
(Pricing Consultation Co-ordinator)
0121 424 8518

Additional copies:

<http://www.nationalgrid.com/uk/Metering/PricingConsultation/Documents>

To ensure your views are included, please make sure that we have received your response by 07 September 2012. We will use your views to help shape the stakeholder consultation we will run during the autumn. We will use the feedback from that consultation when developing our pricing proposals, for submission to Ofgem towards the end of 2012.

5.2 Confidentiality

Your views will be used to help us shape both our consultation approach and our pricing proposals. If you would prefer that we did not share these views publicly, we will keep your response confidential. Please ensure that you mark any response clearly to indicate your preference.

5.3 Alternative formats

This document can be made available in large print if required. Please contact us to request a copy.

5.4 Further information

If you would like further information about National Grid, its Metering business or any aspect of the Pricing Consultation, please do not hesitate to contact us by email or visit www.nationalgrid.com.



6 Glossary



Consumer

A person or organisation using gas at a meter point.

Customer

A person or organisation with whom NGM has entered into a contractual arrangement.

MAM – Meter Asset Manager

A person or organisation approved by the Authority as possessing sufficient expertise to provide gas metering services.

Metering Services

The provision, installation, commissioning, inspection, repairing, alteration, repositioning, removal, renewal and maintenance of the whole or part of an installed gas meter.

MPOLR – Meter Provider of Last Report

An obligation in the Gas Transportation Licences to meet any reasonable request by a Distribution network or supplier to provide and install at the premises of a domestic customer a gas meter owned by the licensee and of a type specified by the Distribution network or supplier.

NMM – National Meter Manager

An organisation obligated by their Gas Transportation Licence to provide MPOLR services on a national basis.

OAMI – Ofgem Approved Meter Installer
Registered entities that conform to one or more of the codes of practice in relation to meter installation.

RAV – Regulatory Asset Value

The RAV is a measure of the value of the capital employed in the regulated business. RAV is a financial construct based on historical investment costs. It represents the value upon which companies earn a return in accordance with the regulatory cost of capital and receive a regulatory depreciation allowance.

RoMA – Review of Metering Arrangements
Ofgem consultation process regarding the regulatory arrangements for managing the transition from traditional meters to smart meters.



Preliminary Consultation questionnaire



Name/Organisation:

Contact Details:

Regulatory Price Controls

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How should we consult our stakeholders?

Q3a: What methods and tools would you expect us to use in order to engage stakeholders in the consultation?

Q3b: What methods and tools would you prefer to use to provide us with your views? Please state your preferences and give reasons for each.



What should we be talking to our stakeholders about?

Q4a: What themes would you expect the stakeholder consultation to cover? Please outline why you think each is important.

Q4b: What further themes should we include in our consultation? Please outline why you think each is important.

Q4c: What questions would you expect us to ask in our consultation under each of these themes? Why do you think these are important?

When should we consult?

Q5: Do you think the proposed timeline should be changed in any way? If so, please give reasons for the suggested change.

Any other comments?

Q6: Please let us know if you have any other thoughts or comments on the points raised in this document or if you would like to highlight any other issues you consider important.

Thank you for your reply

