Appendix 1 – Consultation questions

Name/Organisation:	**Energy Assets Group**

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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. The market is still in its infancy regardless against which standard it is being judged – number of meters owned or turnover. National Grid (NG) is still the dominant player and has a market share considerably higher than the 75% quoted on Page 4/5 of the Approach to Pricing Model document. There are no universally available or accepted statistics on the total meter population with estimates varying from 1.2 to 1.6m. This was the range quoted by Abigail Cardall of NG after the first consultation workshop session. The range for meters above U6 is more narrowly estimated in a band from 450,000 to 600,000. We believe that the number of I & C meters owned by other than NG is around 100,000 which would give NG a market share of between 91% and 94% based on the above total I & C population range. In the absence of reliable data it is difficult to estimate the NG share of the above U6 meters, but our belief is that it is between 85% and 89%. NG have stated publicly that they believe that the I & C market is "highly competitive" – we do not agree with this statement and would support our view as follows: • New entrants appeared in the I & C MAM market around 2005, if not before • Seven years on, the combined share of all new entrants is still less than 10% • Current rates of new and replacement installations by MAMs other than NG are running at around 3% of the population • At this level we estimate that the NG market share would still exceed 75% after a further five years of market penetration by new entrants In summary, we believe that the actual level of competition is still minimal although the potential for a fully competitive market is real, provided regulatory controls remain in place until the NG market share has dropped to a level that would not be considered dominant at between 25% and 40%. One of the regulatory interventions which would be appropriate is for Ofgem to ensure that procedures and processes are in place to facilitate a smooth transfer of assets. This would be applicable where a gas supplier or end user wishes to fit automatic meter reading (AMR) equipment across its portfolio. Currently this is achieved by a comprehensive meter exchange programme whereby the NG legacy meters are 100% removed and replaced with new installations (meter and pipework). A, solution that would drive earlier real competition in the market would be for NG to be obliged to sell fit-for-purpose installations (including the meter) to an alternative MAM, provided that this is done on a simple pre-agreed formulaic basis which recognises that under the alternative 100% exchange NG would lose its rental income immediately – better for NG to have a contribution for these legacy assets it acquired rather than have them removed and returned as spares. In conclusion, the barriers to entry have been substantial for new entrants: cash, robust I.T. systems and a physical supply chain to name but three. Energy Assets have invested over £40m in the last seven years in the I&C market and have provided competition and choice to the gas supplier fraternity. Despite this, it is still a fledgling market which needs nurturing by the Regulator, to ensure that the monopoly position of NG, with its legacy portfolio, does not stifle the green shoots of competition completely before they have started to take root. For this

reason, we believe that Ofgem should continue to regulate NG I&C tariffs and not allow the monopoly player to freeze out competitors via price cutting and maximise its revenue from a legacy stock it inherited, ahead of any future lucrative disposal of the NG Metering business.

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

Yes, although we are not an active player in this 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?

The tariff cap for prepayment meters is widely felt to be artificially low and if so, needs to be raised. This was highlighted by many participants at the Consultation Workshops

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

In principle, yes. It would seem to make sense for other network owners to transfer traditional meters to NG, at a nominal value, given that this would be a “distressed sale”.

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?

Given the lack of clarity around security and the DCC, we expect that there will be a further delay to the smart roll-out which will push the profile to below the Lower Bound case. This however will be better for the market as a whole, creating a smoother profile for meter manufacturers and installers rather than the extreme frontend loading shown in all three DECC cases.

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

As active players in the I & C sector, we prefer a methodology aligned with No. 5, given that price levels need to be high enough to attract the investment needed to fund meter replacement programmes on a scale to enable gas suppliers to achieve the 2014 advanced meter deadlines set by DECC.

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?
A higher rate needs to be applied to recognise the rate of return which would be expected by the market once metering is de-regulated. It does not seem logical to link metering returns to distribution businesses which are monopolies in geographical areas.

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?
No response

Q9: Do you agree with our assessments of future workload? If you have alternative views please outline where they differ.
For the I&C sector, NG is likely to experience increased demand from gas suppliers to upgrade meter installations to make them AMR compliant between now and 2014. Demand will continue beyond this date but diminish up until 2019.

Q10: Do you anticipate any specific requirement for changes to industry data flows or arrangements for traditional meters?
We would like the following additional data to be visible for MPRN: MAM and Supplier. This is critical if a meter churns from one supplier to another. This would enable the MAM to validate billing and check that the change of supplier has been processed correctly. This would also help to identify premature removal of asset recently installed by other MAMs. We understand that this information is currently available for shippers and suppliers to view.

Please return your completed response to the following:	
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THANK YOU FOR YOUR REPLY