



Energy Assets Limited
6 Almondvale Business Park
Almondvale Way
Livingston
EH54 6GA

Tel: **01506 405 405**

Fax: **01506 416 629**

www.energyassets.co.uk

E-mail enquiries@energyassets.co.uk

Pricing Consultation Team

National Grid Metering

35 Homer Road

Solihull

B91 3QJ

Dear Sirs,

We would like to compliment NG for the manner in which the process has been conducted and for the opportunity given to the whole industry to make their views known. As Energy Assets are focused on the I&C market, we have concentrated our response on that sector.

Is the market competitive and what is the market size?

We were pleased in the Stakeholder Consultation Response document and in the 7th February Workshop to discover a widespread industry acknowledgment that NG continues to have a dominant position due to the size of its portfolio. In Section 3.1 of the document NG quote "historic estimates" of the non-domestic market specifically citing a figure of 600,000 for meters U16 and larger. We also note in the Conclusions of Section 3.1 that NG encourage Ofgem to undertake further research and analysis to establish the NG market share. NG also observed that "no one party participating in this consultation has sight of the overall population of non-domestic meters". We are surprised at NG's assertion that "no one knows" on the basis that at the time of network sales circa 2005, this figure would have been well known to NG and now Xoserve. Consequently, it should be straightforward to determine that this figure will not have significantly moved in the intervening years. We believe that the correct figure to use is around 450,000 rather than be reliant on the vagueness of "industry estimates" at 600,000. The significance of these two figures is clear when considering the NG portfolio projection figures on Figure 1 Page 12.

In 2012/13 NG displays a figure of around 385,000 in the bar chart. Taking the figure we believe to be correct at 450,000 gives NG a market share of the above U6 market at 85% (385,000 as a % of 450,000) In contrast, if relying on someone else's industry estimate, gives NG a much lower market share of 64% (385,000 as a % of 600,000) The latter figure is consistent with the "between 2/3 and 3/4 figures quoted by Eric Fowler in the NG presentation – however we believe that this is inconsistent with the facts and that the NG share above U16 is around 85%.



Energy Assets Limited is incorporated and registered in England and Wales with company number 05417114. Registered Office: Ship Canal House, 90 King Street, Manchester M2 4WJ



What is the likely rate of market penetration by new entrants?

NG demonstrate in Figure 1 the rate at which they predict they will lose market share. We note that NG are expecting that by 2019/20 they will still be dominant with over 50% of the above U6 market (230,000 out of 450,000) This is based on the assumption that new entrants will replace NG assets at a rate of around 22,000 per annum in the U16 and larger sector. This is a rate of loss of market share unprecedented since network sales in 2005. Despite this fact, we believe that this rate is realistic, given the intensity of activity required to fulfil the DECC policy requirements on advanced metering – therefore we agree with the NG Figure 1 projections which will, even with ramped-up competitor activity, leave NG with more than 50% market share at the start of 2020/21.

Have new entrants succeeded by offering a better service or by cherry-picking?

It is worth considering whether competition is currently strong enough to challenge NG's dominance. NG assert that "in recent years the majority of all new non-domestic meter installations have been undertaken by our competitors". Taken at face value, this is misleading if it was construed that competitors have had any unfair advantage. From our perspective, the real reasons behind NG competitor activity are:

- New entrants have been focused on delivering excellent customer service, in particular by facilitating AMR installation for end customers
- New entrants have offered to exchange NG meters on an old-for-new basis and guaranteed that a pulse output would be available to give end customers the confidence to invest in AMR
- New entrants have invested heavily in people, I.T. systems, premises and processes

It is also worth noting that all new entrants have heavily invested in people, I.T. systems, premises and processes, above and beyond normal operating costs. In addition, they have invested substantial amounts in metering stock with all the associated external funding requirements to provide a competitive alternative to National Grid Metering, who, for the most part, have inherited all of the above from its predecessor organisations. In addition, new entrants have

The evidence above is that new entrants have done what all new entrants do in any market – offer better service than the incumbent dominant player. However NG "asserts" that certain assets are being cherry-picked, implying that new entrants have been able to pick and choose. We cannot comment for other new entrants but we know that we account for around 50% of the 65,000 assets, U16 and above, displaced in the last six years. Our activities can be divided into two distinct elements:

- i) Volume meter exchange programmes from U6 to turbine meters – the gas suppliers who have commissioned this work would not have countenanced any cherry-picking, therefore work has been undertaken regardless of size, pressure tier or location
- ii) New installations – this work is placed by developers and existing gas users and is undertaken by a range of players. It is impractical to cherry-pick this work given that the customer's meter size is dictated by the site application.



Energy Assets Limited is incorporated and registered in England and Wales with company number 05417114. Registered Office: Ship Canal House, 98 King Street, Manchester M2 4WJ



What level of regulation is required in the I&C sector?

NG contend that more intrusive regulations are unnecessary but acknowledged that "stakeholders expressed a desire to retain some degree of regulatory control until National Grid's dominance was diminished". NG outline its intent to send an open letter to Ofgem "setting out the market forces and criteria" that would support the lifting of regulation. Given that NG also in the same document present a bar chart showing their anticipated market share still to be in excess of 50% at the start of 2020/21, we would suggest that any lifting of regulation should be in the long term, rather than imminent in the next few years.

Parallels have been drawn by participants in the recent Workshops, including the 7th February session, to the way in which the I&C gas sales sector was regulated in the mid 1990s. British Gas was obliged to publish their tariffs until new entrants had gained traction in their efforts to become genuine competitors to the monopoly player. If a similar approach was adopted NG would be obliged to re-introduce publishing their "Blue Book" prices and Ofgem would track the rate at which NG lose market share by looking at both portfolio size and contract awards.

NG refer to "contract awards recently announced" to support the argument that "competition is already effective". As active players in the MAM and AMR market, we would point out that many of these announcements have little significance in that they are essentially the renewal of MAM or AMR agreements rather than game-changing for NG. Other announcements made by some competitive MAM's have simply been as a result of churn agreements and have no impact on the existing NG portfolio.

We would also suggest that Ofgem should ensure that NG do not use the provision of associated services as loss-leaders to tie-in gas suppliers to long term rental agreements. We believe that NG are using a heavily discounted AMR offering as a carrot to discourage suppliers from switching to new entrants – a method of discounting prices without making direct changes to existing meter prices.

In conclusion, we would not favour more intrusive regulation rather an approach whereby NG as the monopoly player must work to a published price list for meter rentals and associated services until such times as their market share is approaching that which would be viewed as market-leading rather than monopolistic, perhaps in the range of c.40%.

Should I&C prices be set with reference to RAV or competition?

We believe that the advent of competition in I&C has delivered very real benefit and choice to gas suppliers and end customers, in a manner that would not have been possible with a traditional monopoly. Given the tough deadlines set by DECC to implement advanced metering before April 2014 in some cases and between then and 2019 in others, it is imperative that new entrants are allowed to flourish. For this reason we believe that it would be inappropriate to use RAV as the methodology for setting I&C prices; as has been argued above, competition will only be fully embedded when NG have sacrificed a greater part of the 86% dominant share they currently hold in the I&C sector U16 and above.



Energy Assets Limited is incorporated and registered in England and Wales with company number 05417114. Registered Office: Ship Canal House, 96 King Street, Manchester M2 9WJ



Transparency of Information

We note that NG has provided Ofgem with a "more detailed financial model" containing more sensitive financial information not to be shared with other stakeholders. Given that NG's position of dominance is derived from inheriting the entire GB portfolio of I&C meters from their monopoly position at the time of network sales, we would like to see greater transparency. We are not suggesting that this should be driven down to individual contract level but that it should at least involve the provision of revenue and margin split by domestic and I&C sectors, in the same manner as is reported by publicly listed competitors to NG.

We trust that our response is clear and that it adds value to the consultation process, and look forward to engaging at any future stage.

Yours Faithfully,



Kenny Cameron

Director of Strategic Development



Energy Assets Limited is incorporated and registered in England and Wales with company number 05417114. Registered Office: Ship Canal House, 98 King Street, Manchester M2 4WU

