

**Non Confidential**

To: Jon Carlton  
Director  
National Grid Metering  
[ngm.priceconsult@nationalgrid.com](mailto:ngm.priceconsult@nationalgrid.com)  
Cc. Steve Rowe (Ofgem)

22<sup>nd</sup> February 2013

Dear Jon,

**Reference: Review of Metering Arrangements (RoMA)**  
**Due: 22<sup>nd</sup> February 2013**

Gazprom Marketing & Trading Retail Limited ("**Gazprom Energy**") would like to thank you for the opportunity to respond to your consultation. We do not consider our response to be Confidential and we are happy for our comments to be shared with other interested parties. Gazprom Energy operates in the UK non domestic sector as a gas Supplier and a gas Shipper. In addition, we also operate in the UK non domestic power market as an electricity Supplier.

As you are aware we have actively participated in the workshops with National Grid Metering (NGM's) appointed consultants and we believe some of the output from these workshops is missing from the initial proposals document.

**General comments**

As a key point, we believe it is important to frame NGM's decisions and proposals in the context of choice i.e. that NGM are not being forced to exit the domestic metering market but are doing so as a result of their own commercial decision. As such any costs associated with this commercial decision to leave the market should not be passed through to suppliers and consumers.

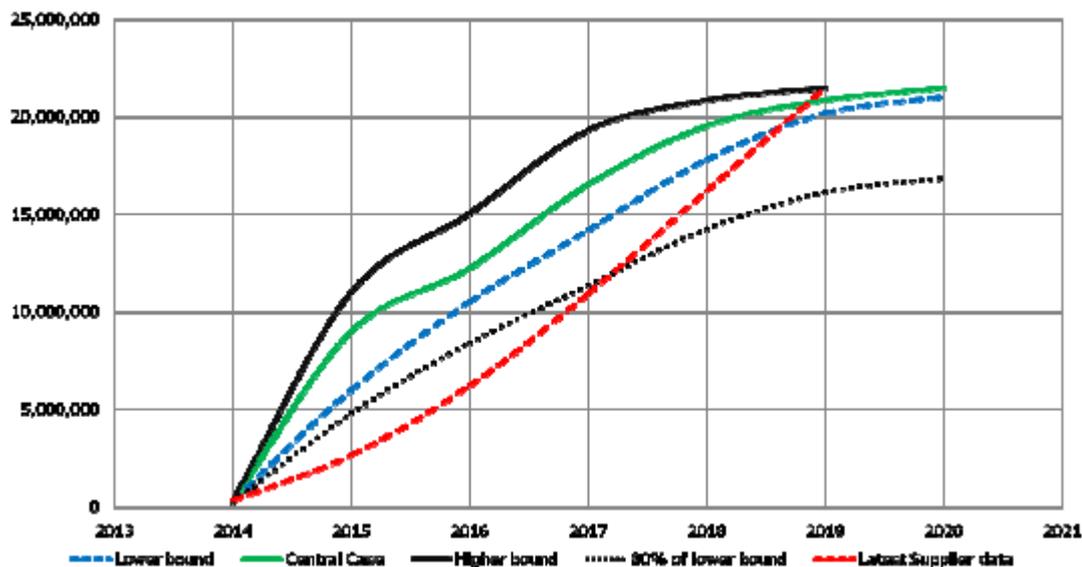
We believe that in allowing NGM to separate its domestic and non domestic businesses detailed consideration should be given as to how NGM's future dominant role as a non domestic metering business is going to be overseen to avoid them having an adverse and detrimental effect on the development of both the existing and future competitive landscape. This oversight is particularly important if the non domestic business decides to complete in offering associated products such as automated meter reading (AMR) services.

### Roll out of Smart Meters

We note NGM’s proposal to use the DECC lower bound case (see table below) to determine the attrition rates in the domestic legacy portfolio however based on the latest information provided by Ofgem (see chart below) it is clear that the exchange rates in the short to medium term are significantly below even the lower bound case. As such we would expect NGM to revise its approach to determining the attrition rate as this will have a material impact on the potential purchase price for any meter assets by NGM.

% Meters Installed	DECC Low bound
Dec 2016	49%
Dec 2017	66%
Dec 2018	83%
Dec 2019	94%
Dec 2020	98%

Rollout profile



### Portfolio Purchasing

In terms of providing a product to purchase legacy portfolios of domestic sized dumb metering we believe that this product should be open to all market participants and be available throughout the whole period of the smart metering program. The methodology and purchase prices should be published and the only variable component of the methodology should be the level of attrition arising from the smart metering program which should be measured on a regular basis as this is the only external factor, outside NGM’s control, influencing the purchase price.

**Rate of Return for Dumb Assets**

Element	% Required
Displacement faster than Low bound-case	0.51
PPM displacement slower than DCM	0.18
Displacement rate peaks create additional call and query volumes	0.03
	0.72%

NGM have proposed to use the RIIO GD1 rate of return plus an additional risk element (see table) to reflect displacement volatility. We would note that the risk premium for a faster than low bound case should be recalculated on the basis of the latest information on the rollout program discussed earlier. We would also note that RIIO includes an Incentive element designed to drive performance and that the NGM proposal does not have an equivalent incentive component to drive appropriate behaviour.

**Prepayment Meters (PPM) cross subsidy on Non Domestic U6 meters**

	Cross-subsidy retained	Cross-subsidy unwound
DCM tariff cap	£17.02	£14.29
PPM tariff cap	£37.49	£57.27

As NGM intend to separate the domestic business from the non domestic business we believe it is important that the existing PPM cross subsidy should only be applied to Domestic use U6 metering which in future will be held the separate “run down” portfolio. Non domestic consumers should not be cross subsidizing domestic consumers PPM products.

As the domestic portfolio of U6 meters will be reducing as part of the exchange program any cross subsidy from the non domestic sector will only increase as the non domestic U6 meters will not be subject to the same pressures of an accelerated exchange program. This may also create a perverse incentive for domestic Suppliers to leave PPM metering to later in the program as the burden of the subsidy would be met increasingly by non domestic Suppliers portfolio of U6 meters.

## Non Domestic Market

We welcome finally the recognition that the non domestic business is, even by NGMs own estimates of market share, by far the dominant player in the market and should continue to be subject to regulatory oversight. However we believe that due to NGM’s significant dominant position its activities should be subject to close monitoring and its rental and other charges should be published as its pricing and commercial strategies will have a material and potentially detrimental effect on other market participants.

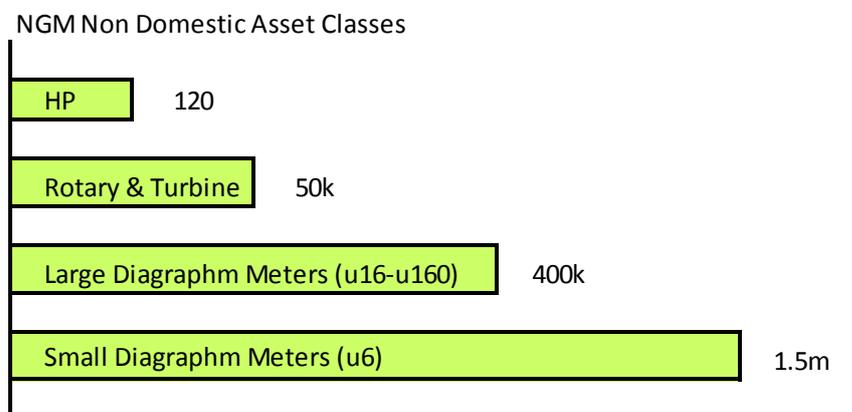
As noted in the workshops when the Non Domestic Gas Supply market was unbundled the incumbent was required to publish its tariffs and was only free to compete openly in the market once their market share had fallen below 40%.

To ensure a commercial NGM business is not adversely affecting the competitive market we believe it is critical to have a common understanding of the following:

- Definition of market share
- Define targets
- Define actions & timelines to achieve the targets
- Ensure appropriate measurement, reporting and sanctions

## Definition of Market Share

At the workshop the group discussed the size and segmentations of the Non Domestic market and the group determined that the market could separate into 4 distinct asset classes. The Group then debated the market share in each Asset Class and it was felt that NGM have a dominant position in ALL the asset classes and estimates of this position ranged from 85% to 95%.



In terms of achieving a competitive market it is clear that a commercial NGM business would need to lose significant market share in each asset class.

### **Define targets**

The group discussed the position levels at which Regulatory intervention could be removed. Consideration was given to the recognised thresholds which potentially attract the attention of the market regulators. It was also noted that when introducing competition to the non domestic supply market the 40% market share figure was utilized.

### **Define actions & timelines to achieve the targets**

The nature of any actions was discussed e.g. Asset Sale, Rental Rate Collar etc. But it was argued that defining the method may be inappropriate as it could make NGM a distressed seller for example. However it was also clear that relying on normal attrition rates would mean NGM remaining the dominant player in the market for many years. Based on discussions in the workshops it was felt that the attrition rate against the non domestic business is circa 2%. This is not indicative of a highly competitive market!

It was considered more appropriate to define the Target and the Timeline and then leave it to NGM to determine the method by which they achieve the target. The Group recognised that some form of Goal setting would be necessary to ensure any actions are not back-loaded against the timeline

### **Ensure appropriate Measurement, Reporting & Sanctions**

Any program will need appropriate oversight & monitoring by Ofgem and the industry will need regular update to have assurance that the program is running successfully. In the event that targets are not met then it will be necessary to implement actions to enforce the targets.

### **Regulated Asset Value (RAV)**

As we noted in the workshops we believe that it would be inappropriate to use RAV as the methodology for setting non domestic prices. However the price NGM charges for the rental of its meters and associated services is of crucial importance in determining the benchmark pricing for metering services in the market. Put simply if it is able to set its prices too low it will drive out competition as those businesses will be unable to complete.



Gazprom Energy  
Bauhaus, 5th Floor  
27 Quay Street  
Manchester

T 0845 230 0011  
F 0845 230 0022  
E [enquiries@gazprom-energy.com](mailto:enquiries@gazprom-energy.com)  
W [www.gazprom-energy.com](http://www.gazprom-energy.com)

We hope you find our comments useful. Should you have any questions on or would like to meet to discuss our response, please don't hesitate to contact me directly.

Yours sincerely,

Steve Mulinganie  
Regulation & Compliance Manager  
Gazprom Energy  
M: 07590 245256  
E: [steve.mulinganie@gazprom-energy.com](mailto:steve.mulinganie@gazprom-energy.com)