

Workshop 3 – 9th October

General opening comments / Comments on NGM Context Presentation

The following questions/points were raised during the NGM presentation:

I&C and Future Regulation

1. NGM raised the need to have a stakeholders view on the definition of the Gas I&C market.
2. Key focus of Workshop was to develop what Stakeholders considered necessary to create a competitive I&C gas market.
3. Statement on NGM slides that I&C market was “highly competitive” was challenged by Stakeholders. Some small parts of the market may be considered to be competitive, but large parts are not. General consensus was that whilst there was competition, the market was not deemed to be competitive.
4. Ofgem stated that with regard to the competitiveness and need for regulation in the I&C market:
 - Re-iterated their position of protecting consumers and encouraging competition;
 - They were mindful that I&C should continue to be regulated in some form with link being maintained with domestic market;
 - As legacy domestic market withers, then I&C should become more competitive;
 - Would need to be convinced that some form of regulation is not still needed;
 - View on need for on-going regulation does not mean that Ofgem are wedded to price control in the I&C market;
 - Objective is to diminish competitive advantage of NGM;
 - They are open to hearing different models that will achieve their goals.
5. NG view was that the time might be right to see regulatory controls in I&C lifted, but Ofgem would need to be convinced that NG does not show undue market power/influence.
6. Market Share discussion: Point made that total share of the market is a crude measure of competition and legacy share would take time to erode as assets have a long life and it will take time for the assets to be replaced. Some statistics were provided by NGM:
 - Approximately 10K meters are installed in “green field” sites (New supplies) and this does not include IGTs. NGM indicated they were only securing c. 25-33% of this market;
 - NGs estate churn is around 20-25K p.a. Question asked regarding level of this churn that NGM were retaining, but NGM did not have figures to hand. Point was made that if it was a high percentage, then this might reflect a growing NGM dominance position;
 - 10-15K per year of the I&C meter estate is being lost – this equates to around 2% net attrition p.a. based on an estate of 400K (U16 and above).

Requirements for Additional Services

7. Possible “bubble” of costs on additional services as the smart roll out starts and number of legacy gas meters are replaced with associated increase in faults, complaints etc.

8. Question regarding Stakeholders preference for IX or DTN communication was raised by NGM. Stakeholders view was that both would continue to be used based on costs and volume of transactions.
9. Question on how the current system will be split to accommodate separate domestic and I&C requirements going forward. NGM indicated that the system is in the process of being split between I&C and domestic (SAP Rainbow).
10. Question asked that if there is a delay in Smart metering roll-out, would there be a knock-on impact on decisions related to the development of a competitive I&C market? NGM view was the development of a competitive I&C market could progress independently of outcome of Smart Meter roll-out. This point was linked to cross subsidy issue between credit and prepayment meters currently in place.

Dealing with Uncertainty

11. NGM indicated that they will define appropriate technical and commercial criteria linked to acquiring any meters via an Asset Transfer. The uncertainty lies with not knowing the volumes and types of assets that will be transferred and the timings of such transfers.
12. NGM highlighted risk where they could potentially be competing with Smart installers for labour. NG would be under strain through the tariff cap to retain skilled staff as they will be unable to pay the salaries demanded.
13. Question asked regarding the impact of a number of parties signing up to MSA contract that would result in a large proportion of the meters not being subject to derived regulated tariff? NGM stated that there was no cross subsidy between the MSA and the regulated assets.

Future of I&C

1. Discussion revolved around what actually constituted the I&C market and how to assess that a competitive market(s) existed. Following points were made:
 - Terms such as 'Business' and 'Non-Domestic' customers constituting the I&C market were debated. The view was that this had to consider U6 meters used in non-domestic situation; General consensus that "non domestic" was the most appropriate description
 - An approach that considered setting what competition would look like in what was viewed as 4 'asset classes' to the I&C market might be a useful way of considering this, since it would avoid the possibility of achieving any market share targets by 'shedding' share in the least profitable sectors. Sectors could be viewed as:
 - i. High Pressure (c. 120 customers): This sector was high value and was considered to be competitive;
 - ii. Rotary Turbine (c. 40k customers): Stakeholders view was that the majority of customers still with NGM (88% or above stated by some Stakeholders);
 - iii. Large Diaphragm (U16 and above with c.400k customers): Stakeholders view was that the majority of customers still with NGM (88% or above stated by some Stakeholders);

- iv. Small Diaphragm (U6 with 1.5 million mentioned – Needs to be reviewed¹): Stakeholders view was that the vast majority of customers are still with NGM, above 98% stated).
2. Issue of what would constitute a competitive market in each was discussed. View was that whatever Competition Law dictated might be an appropriate level (e.g. 25-40%). This would need to be aligned with specific target levels and dates to avoid any back-loading. Outcome would need to be measured and reported to the market.
3. Without an approach along the lines of point 2), Stakeholders viewed the creation of a competitive market for I&C based solely on attrition rates described in NGM presentation would take many years to achieve.
4. Part of assessment of whether there is a competitive I&C market needs to consider the creation of conditions that allow new entrants into the market – removal of any barriers.
5. How any such targets would be achieved would be left to NGM to decide.
6. Comparisons were drawn between what was done to achieve a competitive supply market and suggestion in 1) above.
7. Views were expressed that the dominant purchasing power of NG across the market may hinder the creation of a competitive environment for I&C.

Requirements for Additional Services

Key points made in this discussion were as follows:

1. Is there a balance between the reduction in installations costs and costs of additional services?
2. Is there a better way of blending costs by working closer with Suppliers?
3. Domestic Call volumes likely to be high and should not affect handling of I&C Customers calls (Legacy queries). Any increased resources required due to Asset Transfers should be pro-rata to additional assets.
4. How will asset bases be treated if businesses are bought?
5. Is the 24/7 services already paid for separately?

Overall Stakeholder view was that if the costs assumed in NG consultation took account of the increased contact once Domestic gas meters were replaced and it did not impact in anyway with I&C service, then what was provided currently was fine.

Uncertainty treatment

Key points made were as follows:

1. Question asked why was 2018 picked as point for a reopener? Point made in earlier Workshops that delay to this point in time would penalise or reward those who had been displaced prior to 2018.
2. View expressed by Stakeholders that any reopener date could be based on

¹Extract from DECC Smart Meter Impact Assessment: Indicates 1.5 million total Non-Domestic gas I&C meters. DECC assumption divides meters between: (a) those used at around 400,000 larger sites with consumption of between 73,200 kWh and 732,000 kWh per annum; and (b) those used at around 1.1 million sites with consumption of under 73,200 kWh per annum. DECC acknowledge need for further work to clarify exactly the number of meters in this sector.

- a. % displacement rather than specific time; or
 - b. variance from assumed glide-path (e.g. +/- 10%).
3. The comment was made that if things go fundamentally wrong with the smart meter roll out then the group would expect Ofgem to step in. NG can approach Ofgem at any time if they think the rollout is putting them at a disadvantage (higher roll out rate). Need a mechanism that protects all stakeholders.
4. If at 2019 there are a large volume of traditional domestic gas meters left, then NG would be expected to exercise some of their options, e.g. sell some of the assets.

Dataflows and Industry Process.

The assumption under this slide is that no changes are required. The view in the room was that the end to end process needs to be fully understood to state with confidence that no changes are necessary.

Bulk change of agent was the part of the process that was affected the most. It was understood that the industry processes are tried and proven and the only impact would be volumes going through the systems and these were assumed to be 'fit-for-purpose' to undertake this task.

There was the assumption that the costs NG are proposing to charge will cover the internal system and process changes needed to support a bulk change of agent.