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RECCo response to: Review of Gas Transporter traditional metering licence conditions

We welcome the opportunity to respond to this consultation. Our non-confidential response represents the views of the Retail Energy Code Company Ltd (RECCo) and is based on our role as operator of the Retail Energy Code (REC) and potentially of the Centralised Registration Service (CRS).

RECCo is a not-for-profit, corporate vehicle ensuring the proper, effective, and efficient implementation and ongoing management of the REC arrangements. We seek to promote trust, innovation and competition, whilst maintaining focus on positive consumer outcomes. Through the REC, the services we manage, and the programmes we run, we are dedicated to building a more effective and efficient energy market for the future. We are committed to ensuring that RECCo is an “*intelligent customer*”, ensuring efficacy and value-for-money of the services we procure and manage on behalf of REC Parties, including those which constitute the REC Code Manager.

Below is a summary of the key points that we raise in our response to the consultation questions:

- We support the proposed extension of the conditions in order to ensure that there is a cost-efficient source of legacy gas meters while demand continues to exist. However, we consider the 12-month extension to be rather arbitrary and suggest that it is instead linked to progress on the smart meter roll-out, whether in full or in significant part.
- We are concerned that insufficient consideration is being given to wider issues that the industry and consumers will face as the number of traditional meters declines and believe that further work will be necessary to ensure an orderly transition to smart, without exposing consumers to a premature withdrawal of service or other detrimental impacts while they remain dependent on legacy meter solutions.

We are happy to discuss any of the points raised in this response.

Yours sincerely,

Jon Dixon
Director, Strategy and Development

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Appendix: RECCo response to consultation questions

Q1: Do you agree with our proposed extension of the sunset conditions set out in Appendix 1 to 31 December 2025?
Yes – we agree that, based on what we know of the metering market, it is necessary to extend the sunset conditions as outlined in the consultation. Given the challenges that are being experienced in the roll-out, we believe that it would be beneficial to avoid unnecessary changes to other elements of the metering market. We would however like to see a full assessment of the effects of these requirements being withdrawn after December 2025, in order to validate the consultation's assertion that consumers dependent on traditional meters will still readily have access to them – even as stock levels of certain meter types diminish and DNOs lose the benefits of economies of scale. Rather than replace the existing sunset conditions with another date that is likely to fall long before the smart meter roll-out is complete, we consider that there may be merit in aligning the expiry of the obligations either with the completion of that roll-out, or with objectively defined but non-timebound conditions such as there being >X% of gas supply meter points fitted with a smart meter, or vice versa. We also consider that it may be prudent for the revised conditions to contain an exception that could relieve the GT of the obligations ahead of the sunset date (or conditions) being met, if for instance the installation of a smart meter becomes mandatory. Whilst we recognise that this is currently not government or Ofgem policy, we are aware of growing calls for such a mandate and consider that it may be necessary in order to achieve a full roll-out, and as suppliers work through the portion of their consumer base that is more sceptical of the benefits of smart metering or otherwise reticent to have one installed. Ofgem states its desire to provide clarity for licensees on their obligations following the smart meter roll-out and to allow suppliers to make informed decisions; at the same time, it notes the potential need to revisit the conditions again in the event of the development of smart meter policies for the period beyond 2025. We appreciate that the latter point places Ofgem in a difficult position; however, given, for example, the concerns raised over many years about the declining availability of traditional meters, it would seem an appropriate time at which to consider longer-term solutions to these issues, rather than the prospect of further extensions to come if policy-makers extend the roll-out again.
Q2. Do you agree with our proposal to modify the licence conditions in Appendix 2 such that they cease to apply as of 1 January 2026?
This is logical in the event that the sunset conditions cease to apply on the proposed timeframe.
Q3: Where a GDN continues to hold traditional metering stock, what are your views on the ways in which these assets could or should be managed, and charges levied, following expiry of the sunset conditions and the deactivation of the licence conditions set out in Appendix 2? Do you have concerns with the proposed removal of the tariffs within those licence conditions and if so, what and why?
The circumstances described in the consultation suggest that, irrespective of the expiry of the conditions, suppliers are likely to see higher costs in procuring traditional gas metering stock as the size of the market decreases. Suppliers may of course negotiate costs with GDNs and other metering providers to mitigate this, but they are more likely in our view to benefit from meters being pooled and provision managed by a central body that can extend the economies of scale otherwise being lost. We consider that even the economies of scale realisable by the GDNs will be undermined by the fact that any legacy meters installed in the extended period are likely to have a short installation life. While it would be reasonable for the GDNs to recover those costs in full, that should not lead to excessive terminations or early replacement charges, not least as customer churn may mean these costs do not fall upon the registered shipper/supplier that requested the legacy meter be installed, rather than for instance making further efforts to persuade the consumer to install a smart meter. It should also be recognised that there will be a tipping point at which the costs of providing a legacy meter will exceed those of an historically more expensive smart meter.

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At that point, it would be more cost-efficient both in the short and long term to install a smart meter, even if required to operate in ‘dumb’ mode, rather than to install a legacy meter. We also consider that the environmental costs of replacing and disposing of potentially millions of legacy meters that have only been active for a short period, or even sitting in unused inventory, should be taken into account. It may be appropriate for the GDNs to be suitably incentivised to identify a secondary market for such meters, and/or for disposal costs to be factored into the tariffs for such meters, better incentivising the more sustainable installation of a smart meter.
Q4: Do you have any other comments or views on our proposals?
We believe that the issue being addressed through this consultation is one element of a much wider challenge that the industry will face in the coming years: namely, the provision of metering services to those consumers who – either as a consequence of choice, or for practical or technical reasons – continue to depend on traditional meters. We are concerned that this scenario is currently receiving insufficient consideration in policy and regulatory development, given the clear expectation that millions of households will remain without smart meters beyond the end of next year. The challenges extend beyond the availability of the meters and the commercial viability of providing them and include, for example, the skills required by the engineers servicing them and the maintenance of the supporting infrastructure. Failing to address these issues in our view has the potential to cause significant consumer detriment, including to many of the most vulnerable customers. For instance, we are concerned that the reducing population and density of legacy PPM consumers could lead to pressures on the cost-efficiencies of PPM infrastructure providers and partner retailers. We have undertaken analysis to suggest that this is not a current or immediate problem, but are concerned that in due course there may not be sufficient footfall created by PPM consumers to justify the retention of counter-top payment terminals, etc. We consider that there should be a clear and robust industry plan in place to manage the wind-down of such technologies, otherwise we risk failing to learn the lessons of previous technology transformations, such as the switch-off of Radio Tele-Switch metering.