

# STRICTLY PRIVATE AND CONFIDENTIAL PRICE CONTROL SENSITIVE

This paper and its contents are part of an ongoing process by the Water Industry Commission for Scotland to consult on the expansion of retail competition. This paper and its contents remain Strictly Private and Confidential and should not be distributed or copied to anyone outside of the Commission's office without prior written approval. In any event, the contents of this paper are provisional and subject to revision as and when decided by the Commission. No decisions by the Commission are implied by the contents of this paper.

## **New Retail Areas Stakeholder Group: Metering working paper**

### **Minutes of Meeting for Discussion on Metering**

**Thursday 15 April 2010 12.30pm – 2.30pm**

#### **Present:**

Richard Khaldi, Water Industry Commission for Scotland (Chairman)  
David Walters, Water Industry Commission for Scotland

Iain MacGregor, ABB Limited

Aman Singh, Business Cost Consultants

James Bream, Business Stream  
Les Mack, Business Stream  
Pearl Machray, Business Stream

Gary Craig, CMA Scotland Limited

Derek Morley, McKinnon & Clarke

Kevin Ensell, Osprey Water Services Limited

Robert Leask, Procurement Scotland  
Paul Packett, Procurement Scotland

Edgar Speak, Satec Limited

Jessie McLeman, Scottish Water  
Neil Hemmings, Scottish Water

Jack Lord, Waterwatch Scotland  
Gail Walker, Waterwatch Scotland

#### **In Attendance:**

James Saunders, Shepherd and Wedderburn LLP  
Ashley Jess, Shepherd and Wedderburn LLP

#### **Welcome (Richard Khaldi)**

---

1. Richard Khaldi (RK) opened the meeting by giving a short introduction as to the purpose of and the background to the meeting.

#### **Format for meetings and terms of reference**

---

2. RK noted that the terms of reference for the New Retail Areas Stakeholder Group had been revised and sent to all of the members of the Group.

## **STRICTLY PRIVATE AND CONFIDENTIAL PRICE CONTROL SENSITIVE**

This paper and its contents are part of an ongoing process by the Water Industry Commission for Scotland to consult on the expansion of retail competition. This paper and its contents remain Strictly Private and Confidential and should not be distributed or copied to anyone outside of the Commission's office without prior written approval. In any event, the contents of this paper are provisional and subject to revision as and when decided by the Commission. No decisions by the Commission are implied by the contents of this paper.

### **New Retail Areas Stakeholder Group: Metering working paper**

3. RK explained that the purpose of the Group is as a collective to advise the Commission on the proposed changes to the retail market in relation to metering. Any changes to the competitive market require to be approved by the Commission and therefore any proposals put forward by the Group could only be recommendations and would have to be approved by the Commission.
4. RK clarified the concept of a permanent member. The Commission would like each organisation to appoint one representative with whom the Commission can liaise and this would be the organisation's 'permanent member'. Only one member of each organisation would vote on decisions taken by the Group, but others could attend in a non-voting capacity.
5. RK explained that one person from the Commission would chair each meeting and other individuals and organisations may be invited along to participate if appropriate.
6. RK then moved on to discuss the issue of the timetable of meetings. He suggested that implementation of any changes to the market framework would need to be integrated with existing industry/market commitments. He also saw the Group meeting no more frequently than once every 4 – 6 weeks to allow papers and proposals to be prepared.
7. RK then outlined the procedure for the meetings and suggested that the quorum of the meetings would be four permanent members. However, he did not envision holding a meeting with that few members.
8. The Group then approved the terms of reference.

### **Commission's proposals**

---

9. RK gave a brief explanation as to the rationale behind the Commission's proposals on metering. RK explained that the Commission is of the opinion that customer-facing activities should be within the retail market and that metering is a customer-facing activity. He noted that expanding choice in customer-facing activities is better for customers as it facilitates lower costs and better service.

## **STRICTLY PRIVATE AND CONFIDENTIAL PRICE CONTROL SENSITIVE**

This paper and its contents are part of an ongoing process by the Water Industry Commission for Scotland to consult on the expansion of retail competition. This paper and its contents remain Strictly Private and Confidential and should not be distributed or copied to anyone outside of the Commission's office without prior written approval. In any event, the contents of this paper are provisional and subject to revision as and when decided by the Commission. No decisions by the Commission are implied by the contents of this paper.

### **New Retail Areas Stakeholder Group: Metering working paper**

10. RK suggested that this review of metering was very timely given the review by Ofgem of metering competition in the gas and electricity sectors and with initiatives such as the implementation of smart metering taking place.

### **Experience of metering**

---

11. RK then invited those present to give their experiences of metering.
12. A licensed provider explained that it would like to see a greater degree of customer choice in the area of metering. In other areas, customers have a greater degree of choice for services and suppliers but customers do not have this breadth of choice in the area of metering.
13. It was noted that whilst some customers would like greater service such as automatic reading data, some customers would like less service. It was therefore difficult to generalise as different customers wanted very different metering solutions.

### **Technology**

---

14. RK asked whether the Group thought that technology would solve customers' problems?
15. It was noted that technology could go some way to solving these problems, as the main priority of customers is to have accurate meter readings and accurate bills. It was also noted that there are problems with access to certain meters and automated meter reading should solve the problem.
16. However, although technology may solve the problems of some customers, there is still the issue that customers want different solutions depending on their own circumstances – the main issue with metering therefore remains the lack of choice.
17. RK noted the difference between smart meters and automated meter reading (AMRs). It was noted that AMRs or data loggers can be attached to meters owned by Scottish Water.
18. Following on, RK asked whether there was an interest in changing customers' meters or whether it was preferred to put a device on to the existing meters?

## **STRICTLY PRIVATE AND CONFIDENTIAL PRICE CONTROL SENSITIVE**

This paper and its contents are part of an ongoing process by the Water Industry Commission for Scotland to consult on the expansion of retail competition. This paper and its contents remain Strictly Private and Confidential and should not be distributed or copied to anyone outside of the Commission's office without prior written approval. In any event, the contents of this paper are provisional and subject to revision as and when decided by the Commission. No decisions by the Commission are implied by the contents of this paper.

### **New Retail Areas Stakeholder Group: Metering working paper**

19. It was noted that many of Scottish Water meters are not loggable due to their age – they were not pulse meters – and that access and location of meters is also an issue. These issues would need to be addressed before meters can be improved generally.
20. RK asked if customers would be willing to take action to resolve these issues? It was suggested that some customers are willing to pay for meters being moved, an example was given of one customer who was known to be willing to pay for an exchange so that it could utilise automated meter readings.

### **Installation of meters**

---

21. RK asked the Group if it should only be licensed providers who install meters or if accredited third parties should be allowed to install them too?
22. It was noted that there are strong views from public bodies about the ability to install meters. Public bodies are seeing lower costs for the installation of meters in the gas and electricity sectors and the lack of options in the water sector is a frustration for them.
23. It was also noted that the gas and electricity sectors are getting more accurate bills and as a result customer expectations are increasing in the water sector. Public bodies are of the view that water metering comes at a high cost and that it is a closed market in that no-one but the licensed provider can provide services.
24. The issue regarding third parties installing meters and financial liability was raised.
25. RK explained that Scottish Water owns its meters and has a contract with licensed providers such that if the customer or licensed provider does anything that damages the meter, the licensed provider is financially responsible for that damage.
26. The proposal of accredited meter operators was raised. RK explained that the proposal was to allow accredited meter operators to contract with Scottish Water in the same way as licensed providers, thereby requiring the accredited meter operator to take liability for damage to Scottish Water meters.
27. It was noted that some public bodies are purchasing meters and others are leasing them with the associated costs being amortised over time. It was also noted that there are issues

## **STRICTLY PRIVATE AND CONFIDENTIAL PRICE CONTROL SENSITIVE**

This paper and its contents are part of an ongoing process by the Water Industry Commission for Scotland to consult on the expansion of retail competition. This paper and its contents remain Strictly Private and Confidential and should not be distributed or copied to anyone outside of the Commission's office without prior written approval. In any event, the contents of this paper are provisional and subject to revision as and when decided by the Commission. No decisions by the Commission are implied by the contents of this paper.

### **New Retail Areas Stakeholder Group: Metering working paper**

around reading meters for public bodies as they require frequent meter readings to help with energy management and billing.

28. It was put forward that logging meters for gas and electricity is different to logging meters for water; although the technology is similar it is not identical. There was some resistance in the Group to parties other than licensed providers installing meters, as there are health and safety issues. A discussion also took place as to the different technological approaches with automated meter reading systems.
29. It was suggested that public bodies are not looking for advanced technology solutions – they are simply looking for a mechanism which will allow them to pay what they actually owe. An important factor behind metering for public bodies is the reconciliation of estimated and actual/periodic readings. Billing accuracy is important as this has implications on the budgets of public bodies.
30. RK asked if the suppliers to the water industry are looking at opportunities in the rollout of smart metering in gas and electricity, such as the water sector using the shared telecoms platform?
31. It was noted that the technical side of the industry is looking at such technology. Data logging has been around for a while and the next technological leap will likely be wireless technology. However, for these metering technologies power is required at the meter as battery operated meters would not be able to connect to the telecoms platform.
32. RK noted that it was important to ensure that any market framework changes put in place allow for changes to be made to any technical standards in the future.

### **Customer issues**

---

33. RK invited views on customers' issues with the present metering arrangements.
34. It was suggested that existing customer service issues must be resolved before looking at any more complex issues, and that there needs to be a level of involvement from customers to resolve these issues.

## STRICTLY PRIVATE AND CONFIDENTIAL PRICE CONTROL SENSITIVE

This paper and its contents are part of an ongoing process by the Water Industry Commission for Scotland to consult on the expansion of retail competition. This paper and its contents remain Strictly Private and Confidential and should not be distributed or copied to anyone outside of the Commission's office without prior written approval. In any event, the contents of this paper are provisional and subject to revision as and when decided by the Commission. No decisions by the Commission are implied by the contents of this paper.

### **New Retail Areas Stakeholder Group: Metering working paper**

35. RK asked for clarification of the customer service issues under the current framework. In response it was suggested that the main problems revolve around billing and charging issues and damaged pipes. It was suggested that direct communication would be required to resolve these problems and that it is important to ensure that customer services are enhanced rather than detracting from them when developing the competitive framework.

### **Meter Ownership**

---

36. RK raised the issue of meter ownership and asked if ownership is something that interests customers or if they are simply interested in more accurate information?
37. It was suggested that some customers do wish to own their own meter, but the majority do not due to the responsibility of maintenance – many customers do not have the required competency and expertise. It was noted that some customers in the gas and electricity sector have had a meter installed and the charges for that are collected periodically through their bill.
38. It was noted that if someone would like to own their meter they would have to find the capital for it. There is therefore more focus on installation by the licensed provider and payment of the capital cost of the meter through the customer's bills.
39. RK asked if a one-off payment by customers to have their meter replaced would be an option?
40. It was suggested that if a new meter installation was financed by way of a one-off capital charge, that charge could be a barrier to customers gaining access to technology. There are many technological options, including customers owning their meter or data loggers, but it is important that the framework is set up with objectives and a defined core.
41. RK asked why some customers have their own meter in addition to the meter from Scottish Water and whether it is because they are keen to monitor consumption or because the Scottish Water meter does not belong to them?
42. It was suggested that customers have additional meters for both reasons although very few customers want to own and manage their own meter.

## **STRICTLY PRIVATE AND CONFIDENTIAL PRICE CONTROL SENSITIVE**

This paper and its contents are part of an ongoing process by the Water Industry Commission for Scotland to consult on the expansion of retail competition. This paper and its contents remain Strictly Private and Confidential and should not be distributed or copied to anyone outside of the Commission's office without prior written approval. In any event, the contents of this paper are provisional and subject to revision as and when decided by the Commission. No decisions by the Commission are implied by the contents of this paper.

### **New Retail Areas Stakeholder Group: Metering working paper**

43. The point was raised that the structure needs to be efficient for the marketplace and that it is important to consider margins. It was noted that the system must be efficient and understandable for the customer as the customer simply wants an accurate bill. There are one or two customers at the other extreme who want meter readings every hour, but the vast majority of customers simply want a simple and accurate meter.
44. A question was then asked of the size of the potential market, as there is little point in spending time reforming the market if there is limited demand. It was suggested that margins are tight and there is work to be done on the financial model. Further, it was suggested that changing essential systems would be costly and this would need to be reviewed in more detail.
45. RK raised the issue of financeability. It was noted that any changes would need to incentivise those offering services to customers.
46. RK noted that the vast majority of customers do want something simple and that larger customers can be accommodated within a simple structure with a few tweaks. He noted that it is important not to create a system which is convenient for 5% of customers but not for 95% of customers.
47. It was also noted that it is important not to lose sight of the different areas of the market and that there is scope for increasing participation in operational activity and for innovation and technology.
48. It was suggested that bill accuracy as well as leakage management were the priorities for metering and that the wholesaler's priorities for metering are the same as for everyone else.

### **Environment**

---

49. RK then raised the issue of metering and the environment.
50. It was suggested that with patterns of readings it would be possible to produce water to meet demand and therefore reduce the production of excess water. The relevance of the Climate Change Bill to water metering was also noted.

## **STRICTLY PRIVATE AND CONFIDENTIAL PRICE CONTROL SENSITIVE**

This paper and its contents are part of an ongoing process by the Water Industry Commission for Scotland to consult on the expansion of retail competition. This paper and its contents remain Strictly Private and Confidential and should not be distributed or copied to anyone outside of the Commission's office without prior written approval. In any event, the contents of this paper are provisional and subject to revision as and when decided by the Commission. No decisions by the Commission are implied by the contents of this paper.

### **New Retail Areas Stakeholder Group: Metering working paper**

51. The issue of vacant properties was raised. It was noted that it was important that customers were paying for what they used and that they should not be subsidising other properties. The possibility was raised of water being turned off remotely at a vacant property.

### **Identification of issues**

---

52. RK then raised the issue of customer appetite and how the changes made would fit in with gas and electricity as well as changing customer priorities. RK mentioned that simplicity is important as any proposals must be easy to understand from the customer's perspective.
53. Participants agreed with this and noted that the detail of any changes must be set out to ensure future problems were avoided as far as possible. In that regard two main customer issues were noted; billing accuracy and speed of service, including the resolution of problems.
54. The issue of whether the hardware technology could support the new proposals was raised. It was noted that any proposals would need to ensure that domestic customers are not supporting changes for large businesses.
55. RK noted that the changes to the market framework would be designed so that customers could take advantage of technology. However, as it stood there was no central funding for the rollout of new meters and innovation would therefore be driven from within the market.
56. The point was raised that data logging technology cannot be placed onto certain meters and that to change the meters to support data logging costs £500. A question was asked as to whether there are any proposals from the Commission or Scottish Water that meters be changed for free so that data loggers can be attached. It was noted that changing old meters to new pulse meters to allow data loggers to be attached is very advantageous for customers.
57. RK noted that there is currently no Government policy or initiative to do this. It was suggested that those kinds of initiatives tend to come from Government but there had been no indication that such an initiative was in the pipeline. It was suggested that Scottish Water and the government be encouraged to create a plan for this, as there are great savings to be made.



## **STRICTLY PRIVATE AND CONFIDENTIAL PRICE CONTROL SENSITIVE**

This paper and its contents are part of an ongoing process by the Water Industry Commission for Scotland to consult on the expansion of retail competition. This paper and its contents remain Strictly Private and Confidential and should not be distributed or copied to anyone outside of the Commission's office without prior written approval. In any event, the contents of this paper are provisional and subject to revision as and when decided by the Commission. No decisions by the Commission are implied by the contents of this paper.

### **New Retail Areas Stakeholder Group: Metering working paper**

58. It was noted that competition should be encouraged for data logging. Data logging can only be done for larger clients and licensed providers are the only ones that can provide this service meaning that it is not competitive.
59. RK explained that the reason only licensed providers can provide data logging services at present is due to the contractual relationship between Scottish Water and the licensed provider discussed earlier.
60. It was noted that the duration of contracts between the customer and the data logger is long and that this is something that should be looked at. It was suggested that the contract lengths vary and that the battery life of the data logger is 5 years and meaning that the contracts also tend to be for 5 years.
61. Finally, it was noted that it is important to know the proportion of meters which are loggable in order to assess the proposals which should be put forward.

### **Next steps**

---

62. RK summarised what he had identified as the main issues discussed by the group:
  1. Simplicity
  2. Billing accuracy
  3. Speed of service
  4. Finance
  5. Types of metering activity
  6. Hardware/technology
63. RK then proposed that between now and the next meeting that the Commission would look at the main issues from the meeting with a view to putting forward proposals for the Group to review and then discuss at the next meeting.
64. RK suggested that the next meeting be in approximately 6 weeks time and that he would send out a proposed time in due course. He also confirmed that he would inform the Commission that the meeting had taken place and update them on what was discussed.
65. The Group agreed that the minutes should be non-attributable.

## **STRICTLY PRIVATE AND CONFIDENTIAL PRICE CONTROL SENSITIVE**

This paper and its contents are part of an ongoing process by the Water Industry Commission for Scotland to consult on the expansion of retail competition. This paper and its contents remain Strictly Private and Confidential and should not be distributed or copied to anyone outside of the Commission's office without prior written approval. In any event, the contents of this paper are provisional and subject to revision as and when decided by the Commission. No decisions by the Commission are implied by the contents of this paper.

### **New Retail Areas Stakeholder Group: Metering working paper**

66. RK then declared the meeting closed.