

The provision of metering services by new electricity distribution network operators

Initial thoughts

December 2003

Summary

This document discusses possible arrangements for metering on licensed electricity distribution networks and the obligations of new electricity distribution network operators. It sets out three options for the future regulation of new distribution network operators and seeks views on the costs and benefits of them.

The three options are:

- ◆ maintain the status quo with 'in area' distribution network operators obliged to provide metering on all supply points (including those on new distribution networks) in their authorised area;
- ◆ change the regulatory regime so that all distribution network operators (including new distribution network operators) are obliged to provide metering to supply points on their network; and
- ◆ remove the obligations on all distribution network operators to provide metering.

Ofgem has rejected the third option at this stage, although in the longer term the development of competition in metering services may lead to the removal of the provision of metering obligations, if appropriate.

Ofgem seeks views on the costs and benefits of the other two options to support the development of a policy on this matter.

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1. Introduction

- 1.1. This document discusses possible arrangements for metering on licensed electricity distribution networks and the obligations of new Distribution Network Operators ('DNOs'). It sets out three options for the future regulation of new DNOs and Ofgem seeks views on the costs and benefits of two of these.

Background

Legal Context

The Electricity Act (1989)

- 1.2. Under paragraph 1 of Schedule 7 to the Electricity Act 1989 ('the Act') the supplier is under an obligation to provide a meter to a customer, except where the customer provides, with the supplier's agreement, his own. Under paragraph 10 of Schedule 7, obligations to maintain a meter fall on the supplier, where the supplier has provided the meter, or on the customer where he has so provided. The supplier can obtain meters from anywhere apart from the customer as long as it satisfies certain criteria¹ and can obtain meter services from an accredited meter operator. Currently most suppliers obtain services from the 'in area' DNO who provide meters pursuant to their obligations under Section C of the distribution licence. It is expected that as competition develops more suppliers may move away from the DNO. British Gas Trading Limited has already contracted with three service providers to provide metering services; Powergen and Innogy have issued an invitation to tender for the provision of such services.
- 1.3. The Utilities Act 2000 amended section 6 of the Act to allow for the licensing of DNOs. Presently, all DNOs were created by the licensing schemes under the Utilities Act 2000. The DNOs were the successor companies to the distribution businesses of the Public Electricity Supply ("PES") licensees.

¹ The criteria the meter must satisfy are set out in paragraph 1(6) of Schedule 7 of the Electricity Act 1989, firstly, its pattern or construction and manner of installation must be approved by Ofgem or an EC equivalent approval body and, secondly, where the meter is a domestic meter, it must also be certified by Ofgem.

The Electricity Distribution Licence

- 1.4. Standard Licence Condition 2 outlines the circumstances in which Section C of the licence takes effect. Section C currently contains the obligations to offer to enter into an agreement for the provision of metering services. SLC 2 provides that Section C of the licence takes effect in the distribution services area of each ex-PES distributor pursuant to a provision by the Secretary of State, in a scheme made under the Utilities Act 2000. Therefore Section C of the licence does not apply to DNOs operating outside their distribution services area, nor does it automatically apply to new DNOs that do not have a distribution services area.
- 1.5. SLC 2 provides that, with the consent of the licensee, Ofgem can switch on all or part of Section C of the electricity distribution licence. In these circumstances Ofgem would be required to specify a distribution services area within which conditions in Section C would apply.

Standard Licence Conditions 36–36C²

- 1.6. Standard Licence Conditions 36 - 36C require the 'in area' DNO to produce statements specifying the basis upon which charges will be made for the provision of each of, amongst other things, Meter Asset Provision (MAP) and Meter Operation (MOp)³ as well as offering to enter into agreements in accordance with the statements in a non-discriminatory fashion, in its distribution services area. If any persons requesting services under these conditions are unable to reach an agreement or vary the terms, they can refer the matter to the Gas and Electricity Markets Authority ('the Authority')⁴ for settlement.
- 1.7. The current SLCs 36-36C are listed in Appendix 1.

² The obligations in SLCs 36-36C which deal with the Metering Point Administration System are duplicated in SLCs 14A-14D. These do not deal with metering obligations and are not addressed in this document.

³ Standard condition 36B 1(a) relates to MAP, standard condition 36B 1(b) relates to MOp.

⁴ Ofgem is the office set up by the Authority to assist it in discharging its functions. Everything done by Ofgem is done in the name of the Authority. The terms "Authority" and "Ofgem" are used interchangeably in this paper

Policy Context

- 1.8. Energy Networks Limited (a subsidiary of Mowlem), Global Utility Connections and Laing have each applied to Ofgem for a licence as a DNO. It is anticipated that other companies will also apply for an electricity distribution licence. The licensing of such new DNOs raises issues for industry and regulation.
- 1.9. Ofgem have published a number of consultations relating to the licensing of new DNOs over the last 18 months. In addition, the Balancing and Settlement Code (BSC), the Settlement Agreement for Scotland (SAS) and the Master Registration Agreement (MRA) have been modified to enable new DNOs to operate effectively in the electricity industry⁵. Outlines of each consultation and modification are provided in Appendix 2.
- 1.10. This document sets out a further consultation on the metering requirements contained in Standard Licence Conditions 36 - 36C and considers whether they should be moved into those parts of the licence that apply to all distributors. As mentioned above, currently only DNOs with distribution services areas have these obligations at present.

Outline of this document

- 1.11. Chapter 2 sets out the summary impact assessment for this workstream.
- 1.12. Chapter 3 sets out the timetable for the consultation and details of how to respond to this document.
- 1.13. Chapter 4 discusses three options for the treatment of metering obligations following the introduction of new DNOs to the industry and sets out Ofgem's initial conclusions.
- 1.14. Appendix 1 contains copies of Standard Licence Conditions 36 - 36C.
- 1.15. Appendix 2 contains brief summaries of previous consultations relating to new DNOs.

⁵ The modifications to SAS are expected to take effect from January 2004.
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2. Summary Impact Assessment

Issue

- 2.1. Obligations on ex-PES DNOs to provide metering services are contained in Section C of the electricity distribution licence. As previously stated, the obligations do not apply to DNOs operating outside their distribution services area or to new DNOs.
- 2.2. SLC 36B requires the 'in area' DNO⁶ to offer to enter into an agreement for the provision of MAP and MOp to any person within their distribution services area.
- 2.3. A number of DNOs have expressed to Ofgem the need for a review of the obligation to offer to enter into an agreement for the provision of metering services on other companies' distribution networks within their distribution services area. This is something which, although potentially possible, they had not needed to do prior to the introduction of new distribution networks.

Objective

- 2.4. The principal objective⁷ of the Authority in carrying out its functions is to protect the interests of consumers in relation to electricity conveyed by distribution systems, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the generation, transmission, distribution and supply of electricity. Where effective competition is not sufficiently developed in an area of the electricity industry it may be appropriate for Ofgem to continue with some form of regulation in that area of the electricity industry.
- 2.5. Ofgem's main concern is to ensure that consumers and suppliers are able to obtain metering services at reasonable rates and on a non-discriminatory basis. Ofgem considers that until there is effective competition in the provision of metering services either the incumbent DNOs should continue to provide

⁶ The term "in area' DNO" refers to a DNO which has obligations under Section C and which is operating within its distribution services area.

⁷ In relation to electricity, Ofgem's principal objective and general duties are set out in section 3A of the Act. Distributor provision of metering services

metering services to any person within their distribution services area or all DNOs should be obliged to offer to enter into an agreement for metering services on their own networks. This would ensure that customers and suppliers are able to obtain metering services at reasonable rates and on a non-discriminatory basis.

- 2.6. Presently 'in area' DNOs are obliged to provide metering services on private networks⁸. An important objective of this policy is to ensure that the changes we propose will not jeopardise the ability of private networks to obtain metering services for themselves or on behalf of customers connected to their networks.

Policy

- 2.7. At this stage, Ofgem invites views as to whether the current regulatory framework, namely that an 'in area' DNO has the obligation to offer to enter into an agreement for metering services with any person in their distribution services area, is appropriate with the emergence of new distributors. Ofgem also invites views on the possible future arrangements detailed below.
- 2.8. The electricity metering market operates through suppliers procuring meters for the customers they supply. Currently the vast majority of meters are provided by the incumbent DNO. Similarly suppliers procure MOp and the majority of MOp is provided by incumbent DNOs. However, one large supplier is starting a programme of moving MOp provision away from the incumbent DNOs. Another two suppliers are in the early stages of a process that could also lead to the moving MOp away from DNOs.

Option 1: Status Quo

- 2.9. The obligations on the 'in area' DNO to offer to enter into an agreement for the provision of MAP and MOp to any person will continue, unless Section C is activated. Any new DNO and existing DNOs operating out of their distribution services area would not be required under the licence to offer to enter into an agreement for the provision of MAP and MOp. Any supplier requiring such

⁸ The term private network refers to a network that is an network exempted under SI 2001 Number 3270 from the requirement for an electricity distribution licence
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services could obtain them through the developing competitive market for metering services or from the 'in area' DNO.

Option 2: Place licence obligations on all distributors to offer to enter into an agreement for the provision of metering services

- 2.10. A proposal for consideration is for all licensed distributors to be obliged to offer to enter into an agreement for the provision of MAP and MOp. Any supplier requiring these services could obtain them through the developing competitive market for metering services or from the DNO to whose network the supplier's customer is connected. Private networks will be able to gain access to metering services for themselves, or for customers connected to their network, by contracting with the relevant DNO to whose network the private network is connected.

Option 3: Remove all obligations to offer to enter into an agreement for the provision of metering services

- 2.11. Another proposal is that no licensed distributor should be obliged to offer to enter into an agreement for the provision of MAP or MOp. Ofgem does not propose to adopt this option at this time.

Criteria for evaluation

- 2.12. In evaluating the options, Ofgem will have regard to how effective competition is in the provision of various metering services. In the event that competition is not yet sufficient, Ofgem will also have regard to the costs and benefits of compliance with Options 1 and 2.

3. Timetable

3.1. The proposed timetable for the key events in this document is as follows:

16 December 2003	Publication of this document.
24 February 2004	Responses requested on the issues raised in this document.
April 2004	Publication of a decision document.
June 2004	Implement decision if a change is required.

Views invited

3.2. Comments are invited on the issues discussed in this document and in particular the costs and benefits of the options posed. Responses should be submitted by 24 February 2004 and should be sent to:

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Contact

3.3. If you have any questions regarding this document please contact either David Howdon or Hannah Cook (020 7901 7444; hannah.cook@ofgem.gov.uk).

Confidentiality

- 3.4. Ofgem will generally publish responses by placing them on its website and making them available in the Research and Information Centre. Respondents should therefore clearly mark as confidential any parts of a response they do not wish to have published.

4. Options

Option 1 – Status Quo

- 4.1. Under this option, the current regulatory arrangements will be maintained, whereby the existing DNOs are obliged to offer to enter into an agreement for the provision of MAP and MOp to supply points on other networks within their distribution service areas. New DNOs would not have an obligation to provide metering services.
- 4.2. The advantage of this option is that the obligation to offer to enter into an agreement for the provision of metering services rests with those who are more likely to have economies of scale and the logistics and facilities to provide these services.
- 4.3. As competition in the provision of metering services develops, Ofgem may view metering services as sufficiently competitive and, if appropriate, remove all obligations on DNOs to offer to enter into an agreement for the provision of MAP and/or MOp. Option 1 avoids the implementation costs associated with licence changes which are likely to be of limited duration.
- 4.4. However, there may be a number of disadvantages to this option. It could be argued that it is inequitable to require 'in area' DNOs to act as meter providers of last resort, but not to require this of the new DNO. A reason for this could be that the new licensed distributor has installed their own network on a commercial basis and obtained the benefits derived from being a licensed distributor, but is not obliged to provide metering services to those customers who are directly connected to its distribution system.
- 4.5. Existing DNOs have expressed concerns that the development of new DNOs is a recent issue that was not taken into account in their business planning and in setting their price controls and that therefore the existing DNOs should not have an obligation to provide these services.
- 4.6. Maintaining the current regulatory structure may also add an additional layer of complexity to the provision of metering services, with no compensating benefits as suppliers seeking metering services from distributors would now have to have

an additional contract, on the regulated terms and conditions, with the 'in area' DNO as well as the new DNO.

- 4.7. Finally, there may also be another complexity due to the arrangements relating to the MRA. For instance, the 'in area' DNO may not have access to the Meter Point Administration Number for each supply point held by the new licensed DNO and the supplier.
- 4.8. One supplier (who is part of a group which has generation, distribution and transmission interests) has contended that new DNOs were not anticipated by the recent Reform of Electricity Metering Arrangements (REMA) industry processes which were designed to facilitate competition in the provision of metering services⁹.

Option 2 – Move obligations to all.

- 4.9. Ofgem does not consider activating Section C in all areas and in all DNO licences as practical. The drafting in SLCs 36-36C implicitly assumes that there is only one last resort supplier for each supply point. Activating this condition more generally would lead to confusion with multiple DNOs being the 'last resort' supplier. In addition having Section C activated in all licences would be contradictory to the principle of having a Section C in licences that are intended to apply to companies who are dominant in the provision of distribution services.
- 4.10. On a procedural point, making a change by issuing Distribution Service Directions, under SLC 2 of the distribution licence, to new DNOs would require the consent of each new distribution licensee, whereas an approach involving a collective licence modification under Section 11A of the Electricity Act 1989 can only be blocked by a "blocking minority" of 20% of relevant licence holders¹⁰.
- 4.11. Under this option, Ofgem could propose that all licensed distributors be required to offer to enter into an agreement for the provision of MAP and/or MOP at any supply point connected to their network or to any private networks

⁹ More information on REMA can be found by entering "REMA" in the search engine on Ofgem's website at <http://www.ofgem.gov.uk/ofgem/search.jsp>

¹⁰ For more information see "Guidance on modifying the standard licence conditions of gas and electricity licences", Ofgem, September 2003.

directly connected to their network, rather than to any supply point in their authorised area.

- 4.12. The advantages of this option are that it is more equitable and avoids some of the complexity of having contracts with two DNOs. However, it may add an alternative layer of complexity in that the supplier cannot automatically assume that the 'in area' DNO will be their last resort provider of metering services and will therefore need to have metering contracts with all DNOs to whose networks its customers are connected.
- 4.13. This option will require a change to all licences and this *process* of change may place a regulatory burden on some participants in the electricity industry. However, the obligations to offer to enter into an agreement for the provision of metering services may only be required for a limited period of time until Ofgem is satisfied that competition in the provision of metering services is effective and that it is appropriate to remove the obligations. Therefore, the benefits of this approach would, potentially, be short lived.
- 4.14. A further potential disadvantage of adopting this option is illustrated by the problems that suppliers encounter in obtaining offers for the provision of gas prepayment meters on the networks of independent gas transporters ('IGTs'). Although an IGT has an obligation to provide and install a domestic gas meter, some IGTs have priced the provision and installation of a gas prepayment meters significantly above that which is charged by Transco. Competition in the provision of metering services is likely to mean that the detrimental effects on customers of this pricing will be eliminated in due course. However, these remain an issue in the short term. Therefore, if Ofgem were to follow this approach, Ofgem would need to consider what, if any, form of price regulation was desirable for the metering activities of new DNOs. Ofgem would need to consider some form of relative price regulation wherein the price of meters on new DNO networks would be linked to the incumbent DNO's price for metering in the relevant area.

Option 3 – No obligations

- 4.15. A third option is to remove all obligations on DNOs to offer to enter into an agreement for the provision of metering services.

- 4.16. Ofgem does not consider that competition in metering has developed to such an extent that customers' interests are best protected without obligations. In the absence of competition, removing the obligation creates a risk that metering will not be provided at certain sites, or will only be provided at an unreasonably excessive price. However, when competition in metering services is effective, Ofgem would consider whether it would be appropriate to seek the removal of these obligations.
- 4.17. Removing some or all of the obligations contained in SLCs 36-36C will involve consultation with the industry and consideration of any price controls that may apply at the time in relation to the provision of metering services.
- 4.18. As part of the currently ongoing distribution price control review Ofgem is intending to conduct a review of competition in the electricity metering market.

Initial Conclusions

- 4.19. As previously stated, Ofgem's view is that Option 3, removing obligations to offer to enter into an agreement for the provision of metering services from all DNOs, is not appropriate at this time.
- 4.20. Therefore Ofgem requests views from industry participants on the options discussed above, and if Option 2 were to be chosen, what form of relative price regulation would be desirable. Ofgem would appreciate any information from customers, industry participants or potential entrants to the industry that would permit us to assess better the costs and benefits of the options.

Appendix 1 Current SLC 36-36C

Condition 36. Basis of Charges for Distributor Metering and Data Services: Requirements for Transparency

- “1. The licensee shall as soon as practicable prepare statements in a form approved by the Authority setting out the basis upon which charges will be made for the provision of each of the distributor metering and data services, in each case in such form and with such detail as shall be necessary to enable any person to make a reasonable estimate of the charges to which the person would become liable to pay for the provision of such services and of the other terms, likely to have a material impact on the conduct of the person’s business, upon which the service would be provided and (without prejudice to the foregoing) including the information set out in paragraph 2.
2. The statements referred to at paragraph 1 shall include a schedule of charges for each of the distributor metering and data services, together with an explanation of the methods by which and the principles on which such charges will be calculated.
3. The Authority may, upon the written request of the licensee, issue a direction relieving the licensee of its obligations under paragraph 1 to such extent and subject to such terms and conditions as the Authority may specify in that direction.
4. The licensee shall not in setting its charges for, or in setting the other terms that will apply to the provision of any of the distributor metering and data services, restrict, distort or prevent competition in the generation, distribution or supply of electricity or in the provision of meter maintenance or data retrieval services.
5. The licensee:
 - (a) shall, at least once in every year, review the information set out in the statements prepared in accordance with paragraph 1 in order that the

information set out in such statements shall continue to be accurate in all material respects; and

(b) may, with the approval of the Authority, from time to time alter the form of such statements.

6. The licensee shall send a copy of the statement prepared in accordance with paragraph 1, and of each revision of such statement, to the Authority.
7. The licensee shall give or send a copy of the statement prepared in accordance with paragraph 1, or (as the case may be) of the latest revision of such statement, to any person who requests a copy of such statement or statements.
8. The licensee may make a charge for any statement given or sent pursuant to paragraph 7 of an amount which shall not exceed the amount specified in directions issued by the Authority for the purposes of this condition based on the Authority's estimate of the licensee's reasonable costs of providing such a statement.

Condition 36A. Non-Discrimination in the Provision of Distributor Metering and Data Services

- "1. In the provision of any of the distributor metering and data services, the licensee shall not discriminate between any persons or class or classes of persons.
2. Without prejudice to paragraph 1, and subject to the provisions of standard condition 36 (Basis of Charges for Distributor Metering and Data Services: Requirements for Transparency), the licensee shall not make charges for the provision of any of the distributor metering and data services to any person or class or classes of persons which differ from the charges for such provision to any other person or class or classes of person except in so far as such differences reasonably reflect differences in the costs associated with such provision.

Condition 36B. Requirement to offer Terms for the Provision of Distributor Metering and Data Services

- "1. This condition sets out the obligations relating to the following services:

- (a) the provision of metering equipment which, at the discretion of the licensee, may be metering equipment which is owned by him or by any person other than the person making such application;
 - (b) the installation, commissioning, testing, repair, maintenance, removal and replacement of metering equipment;
 - (c) metering point administration services pursuant to and in accordance with the Master Registration Agreement; and
 - (d) data transfer services.
2. On application made by any person, the licensee shall (subject to paragraph 6) offer to enter into an agreement for the provision within its distribution services area of such of the services described in sub-paragraphs 1(a), (b) and (c) as may be required.
3. On application made by any person the licensee shall (subject to paragraph 6) offer to enter into an agreement for the provision of data transfer services.
4. In making an offer pursuant to this condition to enter into any agreement, the licensee shall set out:
- (a) the date by which the services required shall be provided (time being of the essence, unless otherwise agreed between parties);
 - (b) the charges to be paid in respect of the services required, such charges (unless manifestly inappropriate):
 - (i) to be presented in such a way as to be referable to the statements prepared in accordance with paragraph 1 of standard condition 36 (Basis of Charges for Distributor Metering and Data Services: Requirements for Transparency) or any revision thereof;
 - (ii) to be set in conformity with the requirements of standard condition 36 (Basis of Charges for Distributor Metering and Data Services: Requirements for Transparency); and
 - (c) such other detailed terms in respect of each of the services required as are or may be appropriate for the purpose of the agreement.

5. The licensee shall offer terms for agreements in accordance with paragraphs 2 and 3 as soon as practicable and (save where the Authority consents to a longer period) in any event not more than 28 days after receipt by the licensee (or its agent) from any person of an application containing all such information as the licensee may reasonably require for the purpose of formulating the terms of the offer.
6. The licensee shall not be obliged pursuant to this condition to offer to enter or to enter into any agreement if to do so would be likely to involve the licensee being:
 - (a) in breach of its duties under section 9 of the Act;
 - (b) in breach of any regulations made under section 29 of the Act or of any other enactment relating to safety or standards applicable in respect of the distribution business;
 - (c) in breach of any Grid Code or Distribution Code; or
 - (d) in breach of the conditions.
7. The licensee shall undertake each of the services referred to in paragraph 1 in the most efficient and economic manner practicable having regard to the alternatives available and the other requirements of the licence and of the Act in so far as they relate to the provision of those services.
8. In the provision of any of the services referred to in paragraph 1 the licensee shall not restrict, distort or prevent competition in the supply of electricity.
9. The services referred to in paragraph 1 shall collectively be referred to as the distributor metering and data services. For the avoidance of doubt distributor metering and data services as referred to in this licence excludes data retrieval, data processing and data aggregation.
10. In this condition:

“data retrieval” means services comprising any or all of the following:
the retrieval and verification of meter reading data from electricity meters
and the delivery of such data to any person for the purpose of data
processing.

“data processing” means services comprising any or all of the following:
the processing, validation and estimation of meter reading data, and the creation, processing and validation of data in respect of the consumption of electricity at premises which receive an unmetered supply, and the delivery of such data to any person for the purpose of data aggregation.

“data aggregation” means services comprising any or all of the following:
the collation and summation of meter reading data (whether actual or estimated) and of data in respect of the consumption of electricity at premises which receive an unmetered supply, and the delivery of such data to any person for settlement purposes.

Condition 36C. Functions of the Authority

- “1. If, after a period which appears to the Authority to be reasonable for the purpose, the licensee has failed to enter into an agreement with any person entitled or claiming to be entitled thereto pursuant to a request under standard condition 36B (Requirement to Offer Terms for the Provision of Distributor Metering and Data Services), the Authority may, on the application of such person or the licensee, settle any terms of the agreement in dispute between the licensee and that person in such manner as appears to the Authority to be reasonable having (in so far as relevant) regard in particular to the following considerations:
 - (a) that the performance by the licensee of its obligations under the agreement should not cause it to be in breach of those provisions referred to at paragraph 6 of standard condition 36B (Requirement to Offer Terms for the Provision of Distributor Metering and Data Services); and
 - (b) that the terms and conditions of the agreement so settled by the Authority and of any other agreements entered into by the licensee pursuant to a request under standard condition 36B (Requirement to Offer Terms for the Provision of Distributor Metering and Data Services) should be in as similar a form as is practicable.
2. In so far as any person entitled or claiming to be entitled to an offer under standard condition 36B (Requirement to Offer Terms for the Provision of

Distributor Metering and Data Services) wishes to proceed on the basis of the agreement as settled by the Authority pursuant to paragraph 1, the licensee shall forthwith enter into and implement such agreement in accordance with its terms.

3. If either party to such agreement proposes to vary the contractual terms of any agreement for the provision of any of the distributor metering and data services entered into pursuant to standard condition 36B (Requirement to Offer Terms for the Provision of Distributor Metering and Data Services) or this condition in any manner provided for under such agreement, the Authority may, at the request of that party, settle any dispute relating to such variation in such manner as appears to the Authority to be reasonable.
4. The Authority may (following consultation with the licensee) issue directions relieving the licensee of its obligations under standard condition 36B (Requirement to Offer Terms for the Provision of Distributor Metering and Data Services) relating to distributor metering and data services in respect of such parts of that condition and to such extent as may be specified in the directions.

Appendix 2 Other consultations relevant to the introduction of new DNOs.

- 2.1 On 31 May 2002 Ofgem published an open letter¹¹ requesting views on matters relating to charging, quality of service, financial ring-fencing and regulatory accounts for any new electricity distribution licence holders. In an open letter issued by Ofgem on 16 April 2003¹², titled 'consultation on the modification of standard licence conditions for new electricity distribution licence holders pursuant to section 8A of the Electricity Act 1989', Ofgem gave a summary of the views provided in response to their open letter of 31 May 2002, set out Ofgem's present thinking on these matters and initiated a statutory consultation process on the standard licence conditions for a new electricity distribution licence holder. Ofgem consulted on the issue arising from this process in September 2003 in a document also entitled "Consultation on the modification of standard licence conditions for new electricity distribution licence holders pursuant to section 8A of the Electricity Act 1989"¹³.
- 2.2 Following this particular set of consultations, licence conditions have been proposed to require new DNOs to:
- ◆ set charges for use of system no higher than the charges set by the DNO operating in the distribution services area of that new DNOs network;
 - ◆ meet certain standards of service and report on such standards of service;
 - ◆ meet a variety of financial ring-fencing conditions to reduce the risk of financial failure; and,
 - ◆ provide statutory accounts with adequate information on the turnover, costs and assets associated with electricity distribution activities.
- 2.3 To facilitate new distributors entering the market Ofgem amended the standard conditions of the electricity distribution licence on 1 August 2003. This

¹¹ www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/3076_openletter31_5_02.pdf

¹² www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/2978_april16_letter.pdf

¹³ http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/4602_ied_licence_modifications.pdf

amendment was set out in a notice published under section 11A¹⁴ of the Electricity Act 1989 on 25 June 2003 and is detailed in the document “Distributor Provision of MPAS Services, Decision Document – June 2003.”¹⁵ The modification removed an anomaly which prevented new distribution businesses from becoming signatories to the MRA and required them to provide MPAS to facilitate competition on their networks.

- 2.4 During the consultation Ofgem clarified that it did not intend to amend the existing obligation on distribution services providers to provide an MPAS to any party and on behalf of other distributors within their distribution services area. In response several distributors highlighted their concerns to Ofgem that new distributors should make their own arrangements for MPAS services to meet their obligations and said they saw no case for a regulatory requirement for ex-PES distributors to offer such a service to other distributors.
- 2.5 In the June 2003 MPAS decision document Ofgem commented on this view. Ofgem did not consider the removal of the obligation on existing ex-PES distributors to provide MPAS services to new licensed DNOs to be within the scope of the proposed licence modifications. The requirement under Standard Licence Condition 37 for distribution service providers to provide MPAS services on request to other distributors operating within their distribution services area therefore still remains.
- 2.6 Ofgem did note that BSC modification P62¹⁶ does limit the obligations on distribution services providers. P62 requires that each DNO operates using one MPAS, so that new DNOs cannot require ex-PES DNOs to provide an MPAS if the new DNO operates in more than one distribution services area. Additionally, existing DNOs operating out of their distribution services area cannot request the host DNO to provide an MPAS as they must use their existing MPAS.
- 2.7 Ofgem is now consulting on whether the obligation on DNOs in whose licence section C is activated to provide MPAS to other DNOs within their distribution services area should remain or be removed. For the avoidance of doubt Ofgem

¹⁴ Subject to section 11A of the Electricity Act 1989 the Authority may modify the standard conditions of licences of any type mentioned in Section 6(1) of the Electricity Act 1989.

¹⁵http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/3763_Distributor_Provision_MPAS_decisiondoc.pdf

¹⁶ P62 – Changes to Facilitate Competitive Supply on the Networks of New Licensed Distributors
Distributor provision of metering services

is not consulting on whether this obligation should be extended to all licensed DNOs.