

**The provision of metering services by  
new electricity distribution network  
operators**

**Decision document**

June 2004

## Summary

This document discussed the options for the provision of metering on new distribution networks originally discussed in Ofgem's December 2003 consultation document.

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.

The document indicates that Ofgem will be following the first option so no changes to current regulatory rules are being proposed.

# Table of contents

<b>1. Background.....</b>	<b>1</b>
Overview .....	1
The regulatory framework.....	1
The December consultation document .....	1
Criteria for evaluation.....	2
<b>2. Summary of Responses .....</b>	<b>4</b>
Overview .....	4
Option 1 .....	4
Option 2 .....	7
Option 3 .....	9
Conclusion.....	10

# 1. Background

## ***Overview***

- 1.1. The purpose of this chapter is to provide an overview of the existing legal framework and a summary of the options, issued for consultation in the December 2003 document<sup>1</sup>, in relation to metering arrangements for new Distribution Network Operators ('DNOs'). Further information regarding the legal background and the options proposed can be found in the December document.

## ***The regulatory framework***

### ***The Electricity Act (1989)***

- 1.2. Paragraph 1 of Schedule 7 to the Electricity Act 1989 ('the Act') places the supplier under an obligation to provide a meter to a customer, except where the customer provides, with the supplier's agreement, his own. Currently most suppliers obtain services from the 'in area' DNO who provide meters pursuant to their obligations under Section C of the distribution licence.

### ***The Electricity Distribution Licence***

- 1.3. Section C of the DNOs licence currently contains the obligations to offer to enter into an agreement for the provision of metering services. Standard Licence Conditions (SLCs) 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 work (i.e. Meter Operation (MOp)) as well as offering to enter into agreements in accordance with the statements in a non-discriminatory fashion, in its distribution services area.

## ***The December consultation document***

- 1.4. In the December document Ofgem issued for consultation the possible options in relation to arrangements to be put in place to enable metering services to be offered on the networks of new Distribution Network Operators. Each of the options issued for consultation are summarised below.

### ***Option 1***

- 1.5. Under option 1 the obligations on the 'in area' DNO to offer to enter into an agreement for the provision of MAP and MOp to any person would continue. 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 services would be able to obtain them through the competitive market for metering services or from the 'in area' DNO.

### ***Option 2***

- 1.6. Under option 2 all licensed distributors would be obliged to offer to enter into an agreement for the provision of MAP and MOp. Any supplier requiring these services would be able to obtain them through the competitive market for metering services or from the DNO to whose network the supplier's customer is connected.

### ***Option 3***

- 1.7. Under option 3 no licensed distributor would be obliged to offer to enter into an agreement for the provision of MAP or MOp. In the December document Ofgem stated its intention not to progress any further action in relation to this option. Although, in the longer term, development of competition in metering services may lead to the removal of the provision of metering obligations.

## ***Criteria for evaluation***

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<sup>1</sup> "The provision of metering services by new electricity distribution network operators- Initial thoughts", Ofgem, December 2003  
The provision of metering services by new electricity distribution network operators – Decision Document

- 1.8. 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. Until there is effective competition in the provision of metering services Ofgem considers that there is a need for 'backstop' protection provided under option 1 or 2. This would ensure that customers and suppliers are able to obtain metering services at reasonable rates and on a non-discriminatory basis.

## 2. Summary of Responses

### *Overview*

- 2.1. The consultation document issued in December 2003 invited industry views on the possible options for amendment of SLCs 36 - 36C to accommodate the entry of new DNOs into the electricity distribution market. The main issue under consultation concerned the arrangements to be implemented in relation to the provision of metering services on the new DNO networks.
- 2.2. Twelve responses were submitted during the consultation period and this chapter highlights the main points raised by respondents in relation to the three options proposed. These are summarised and arranged in turn below. Copies of the non-confidential responses can be found on Ofgem's website.

### *Option 1*

#### *Respondents' views*

- 2.3. Four respondents supported this option. They considered that this would be the least cost solution and that it would avoid the implementation costs of a licence change. They were of the opinion that any increased costs incurred may be unnecessary as, with the development of competition, obligations in relation to metering services of last resort may be removed and therefore any amendment to the licence conditions to support the introduction of new DNOs would likely only be a short-term measure. In line with this, one respondent suggested that if option 1 were followed, this should be reviewed in two years in order to ensure that it remained appropriate given prevailing market conditions.
- 2.4. Of the advocates of option 1, two favoured this proposal on the basis that 'in-area' DNOs have an established infrastructure and the required facilities necessary to enable them to provide metering services to new DNOs on reasonable terms and on a non-discriminatory basis. They also cited that existing DNOs would be more likely to benefit from economies of scale improving further their ability to offer services on reasonable terms.

- 2.5. The implementation of option 1 was perceived, by two further respondents, to be a relatively straightforward process which would avoid additional complexity associated with an amendment of the relevant electricity distribution licence.
- 2.6. However, concerns were expressed by one respondent that under option 1 'in-area' DNOs would not have access to the MPAN data necessary to provide metering services. In response, three respondents cited that, following the implementation of modification proposal P62 of the Balancing and Settlement Code 'in area' DNOs will have the ability to gain access to such relevant data.
- 2.7. Another respondent was of the opinion that retention of the obligation on DNOs to provide metering services while the network continues to be operated by another company may obscure the boundaries of ownership and responsibility; respondents argued that this could lead to inconvenience for customers and potential safety risks. Concern was raised by two further respondents regarding the possibility that meters installed on the new DNO network by the 'in-area' DNO may be incompatible with the systems implemented by the new network operator.
- 2.8. Concerns were raised by one further respondent with respect to option 1, in relation to the extent to which retaining the status quo would serve to restrict the development of competition by allowing existing DNOs to remain dominant in the provision of metering services.

### ***Ofgem's updated view***

- 2.9. As stated in the December 2003 paper, Ofgem remains of the opinion that there would be transitional costs involved in changing procedures from the status quo and that, given the likely short duration of the licence conditions in question, avoiding these costs if possible would be desirable.
- 2.10. Although Ofgem accepts that there are economies of scale in metering markets it does not necessarily follow that the obligations to provide services should fall on the existing DNOs. A situation in which the obligations fall on the new DNOs who can discharge this obligation through a contract with another party with greater scale would be an alternative option.



- 2.11. The industry has implemented a number of changes to systems and processes to accommodate the introduction of new DNOs into the market. Since August 2003 all DNOs have been required to operate a single Metering Point Administration Service (MPAS) registration system with the same 2 digit identifier contained within the core MPAN for all sites on their networks. DNOs are required by their licences to publish this MPAN data to suppliers. Using the current industry baseline, suppliers will be able to access the required data to understand on which DNO network a site is located. Suppliers can then approach the relevant 'in area' DNO for that area to secure metering services if they wish to appoint the incumbent agent. Suppliers should be able to deduce the identity of the 'in area' DNO from the available industry data. Parties are free to propose amendments to the current industry baseline if they feel that the information available is insufficient to meet their business needs.
- 2.12. Ofgem considers that the concerns that 'in area' DNOs providing meters on new DNO networks will lack access to relevant information and may therefore cause inconvenience and safety issues is not a convincing argument since companies other than the DNO are already able to provide metering and industry systems have been designed for this. The review of electricity metering arrangements (REMA) project put in place industry arrangements to allow ownership of meters other than by the relevant DNO. Since companies other than DNOs are currently providing metering services an argument that only the relevant DNO can provide metering is contradicted by current experience.
- 2.13. There is potentially a small negative effect on the development of competition in metering from Option 1. Under this option new DNOs will not have to gain metering competencies, whereas if they were required to do so they would potentially be in a better place to compete with the incumbent metering service providers (the DNOs). Ofgem does not consider that this is a significant issue as there are already several participants in the industry with metering competencies and simply having more participants (rather than tackling any barriers to entry that exist) would not have a significant impact on the development of competition.

### **Further issue**

- 2.14. Ofgem recognises that Option 1 would result in a difference in treatment between 'in-area' DNOs and new DNOs. However Ofgem considers that one of the main purposes underlying SLCs 36-36C was to prevent the use by DNOs of their powers as the main (initially *de facto* monopoly) providers of metering services. Unlike 'in-area' DNOs, the new DNOs would not have an initial historically established position of dominance as they are entering the metering market after competitive metering arrangements have started to develop.
- 2.15. Consequently it is Ofgem's opinion that new DNOs and existing DNOs are somewhat different entities and maintaining different obligations on different players in these circumstances can be justified.

## ***Option 2***

### ***Respondents' views***

- 2.16. Six respondents were in favour of option 2 and were of the opinion that this offered the preferred solution. They argued that new DNOs would be able to contract with a third party for the provision of metering services as a range of service providers operate at competitive prices within the market. Even if excessive prices charged for metering services were to become an issue this could easily be solved by the introduction of a form of relative price regulation.
- 2.17. One respondent felt that Option 2 would create new metering service providers and would therefore act as a stimulus to competition by allowing benchmark competition.
- 2.18. However, five respondents raised concerns regarding the ability of new DNOs to gain metering services on reasonable terms. Of these, one considered that the costs associated with setting up a metering business by a new DNO would be high and therefore may deter such businesses from establishing their own metering services. Respondents were aware that existing DNOs have established metering businesses which they operate at a lower cost and that these companies may be able to provide the relevant services to new DNOs on reasonable terms but were sceptical that this would happen, particularly in situations where the DNO would be competing with the new DNO for control of the network.

- 2.19. In line with this, a reference was made in one response to issues evident within the gas market where a similar arrangement operates and where suppliers have experienced difficulties in obtaining competitive offers from Independent Gas Transporters (IGTs). The respondent had concerns that a similar situation may arise in the electricity market.
- 2.20. Some respondents perceived that extra complexity would be introduced into the electricity market under Option 2. In one response concern was expressed that suppliers would be required to have contracts with all DNOs in order to be able to acquire metering services of last resort in all of the areas in which they operate. While in another response it was argued that significant system change would be necessary to accommodate the provision of metering on the new DNO networks.
- 2.21. Respondents in support of option 2 accepted that complexities may be apparent as a result of the implementation of option 2 but considered that they would not be significant. One respondent perceived that the development of the new DNOs would be an incremental process and any complexities experienced would be dealt with on an individual basis.
- 2.22. A further respondent had concerns that if requirements for the provision of metering services no longer rested with the DNO this may have adverse effects upon the availability of Prepayment Meter (PPM) services. They were aware that currently PPMs provided by the DNO are compatible with the supporting Prepayment Meter Infrastructure Provider (PPMIP) system and that meters provided by a new DNO may not be compatible. The respondent considered that this would require the new DNO to purchase the relevant meters from the existing DNO which they perceived may cause the new DNO to incur significant costs.

### ***Ofgem's view***

- 2.23. As stated above whilst Ofgem does accept that there are economies of scale in metering this does not automatically mean that new DNOs should not be obliged to provide these services or could not obtain the benefits of these economies by contracting with other (larger) providers of metering services.

- 2.24. Ofgem notes the concerns about the potential inability to obtain prepayment meters on new DNO networks under option 2, and further notes the problems in the gas industry with the provision of prepayment meters on IGT networks. However Ofgem does not consider that this problem is inherent in the nature of small pipes and wires networks or that there is any clear evidence that this problem would also occur in the electricity industry.
- 2.25. One of the main problems with this approach would be the system changes it would require for industry in order to maintain what is, in essence, a transitory regulatory remedy for the lack of development of competition in electricity metering markets. Competition in metering services has already started to develop and Ofgem is minded to review this market with a view to reconsidering the need for SLC 36-36C in early 2005.

### ***Option 3***

#### ***Respondents' views***

- 2.26. Option 3 discussed the possibility of removing the obligations on all DNOs to provide metering. In order for Ofgem to adopt this option competitive forces would have to have developed sufficiently to allow the market to allocate the provision of metering services effectively.
- 2.27. Two respondents were in favour of the removal of all obligations on distributors in relation to the provision of metering services considering that this option would allow full competition to develop more effectively. Of these, one advocated that the market is sufficiently developed to enable suppliers to protect their interests and to make them aware of the range of metering service providers available to them.
- 2.28. However, five of the responses submitted in relation to option 3 were of the opinion that the market has not yet developed sufficiently to ensure that suppliers would be able to choose from a range of competitive offers for the provision of metering services. They perceived that the removal of all obligations regarding metering services of last resort should be a long-term goal that will be achieved once competition has developed sufficiently to protect the interests of both suppliers and consumers.

### ***Ofgem's view***

- 2.29. Ofgem remains of the view that, at this stage, the removal of all obligations on DNOs to provide metering services is not an option. A full assessment of competition in the electricity metering market is being carried out as part of the distribution price control review project and decisions about the maintenance of SLCs 36-36C will be taken as part of that process. Therefore Ofgem is not considering this option as part of this area of work.

### ***Conclusion***

- 2.30. Decisions reached regarding option 3, combined with the costs to industry of switching to an alternative approach means that Ofgem remains of the opinion that Option 1 is the correct solution. Therefore Ofgem will not be proposing to make any modifications to licence conditions.
- 2.31. Ofgem will keep this area under review and will consider what regulatory action would be appropriate if the interests of customers are harmed by any developments.