

**The proposed restructuring of National Grid  
Transco's metering business**

**Consultation document**

March 2005 78/05

## Summary

This document invites views from suppliers, customers and other interested parties on any issues raised by National Grid Transco's (NGT's) proposals to restructure its gas metering business by consolidating its two existing metering businesses into a single meter operator organisation, 'NGT Metering'. NGT has indicated to Ofgem that this proposal was prompted by its desire to "have a metering organisation capable of working effectively in the newly competitive multi-utility metering market". NGT would like to implement its restructuring plan in April 2005.

## Background

In October 1998 Ofgas published its initial proposals for securing effective competition in the provision of gas metering and meter reading services. The proposals suggested that Transco's price control should be separated to identify the prices for transportation, metering and meter reading activities. Ofgas also proposed that these Transco activities should be separated, physically, financially and in terms of information provision. Ofgas noted that new industry processes would be required to allow other companies to compete in providing metering and meter reading services to those provided by Transco and to ensure that industry processes do not favour Transco's own metering and meter reading services.

On 12 July 2004, standard industry-wide processes to support competition in gas metering services were successfully introduced as part of the review of gas metering arrangements (RGMA) project. Transco's transportation and metering businesses were also separated.

NGT currently owns two metering businesses: Transco Metering Services Ltd (TMS) - that provides services to Transco, and Utility Metering Services Ltd (UMS) - that provides metering services in the competitive market. TMS services to Transco are indirectly regulated by Ofgem through conditions in Transco's transportation licence that limit the prices that Transco can charge for the provision of meters and metering services. These price controls were put in place in April 2002 by Ofgem to protect customers in the transition to a competitive metering market. UMS is not directly regulated by Ofgem but is subject to general competition law.

## **NGT's proposals**

With the development of competition in metering, NGT has decided to consolidate its two existing metering businesses into a single unlicensed company. NGT is now intending to restructure its metering activities and to create a new metering business: 'NGT Metering'. This will require the sale by Transco of both TMS and all of its installed meters and associated equipment.

NGT has informed Ofgem that it intends to novate Transco's existing Metering Services Agreement (MSA) contracts with gas suppliers for the provision of meters and metering services to the new company where the contracts allow them to do this. NGT Metering will lease meters and provide metering services to Transco to support any contracts that are not novated.

## **Views invited**

Ofgem would welcome views on any issues raised by NGT's proposals. The main issues raised by NGT's proposals that respondents may wish to comment on are:

- ◆ whether suppliers consider that they have been made fully aware of the proposals and had choices made available to them. NGT has stated that it has consulted widely with gas suppliers on its proposals and made suppliers aware of the choices available to them to transfer their existing contracts to NGT Metering under revised terms or to continue to contract with Transco under price-controlled terms;
- ◆ whether suppliers consider that they can still effectively access the price controlled tariffs for gas meters under NGT's proposals;
- ◆ the proposed "rebalancing" of charges for domestic standard credit meters and pre-payment meters for gas suppliers who chose to transfer their contracts to NGT metering. This is likely to increase the charges paid by gas suppliers for pre-payment meters and decrease the charge for standard credit meters. NGT has indicated that these indicative charges will be provided by OnStream<sup>1</sup> to

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<sup>1</sup> OnStream is the trading name of UMS.  
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contract signatories by 22 March. NGT has indicated that the new charges better reflect their costs and are necessary to ensure compliance with general competition law;

- ◆ the impact of the proposals on gas suppliers who have agreed to the transfer of their contracts to NGT Metering. Under NGT's proposal, these meters will no longer be owned by Transco, a licensed gas transporter, and so responsibility for keeping the meters in proper order is likely, under the current legislative and regulatory framework, to transfer to the supplier. This may require changes to the terms and conditions of contracts between suppliers and customers to set out clearly their responsibilities; and
- ◆ the risk to customers and suppliers relating to imperial meters and whether this risk is impacted by the proposals. A large number of existing gas meters measure gas consumption in imperial measures. The Weights and Measures Act 1985 prohibits the use for trade of any imperial cubic measure other than for equipment placed on the market and used before 1 December 1980. Following earlier discussions with Ofgem and the DTI, Transco concluded that the use of these meters is legal. NGT has indicated that its proposal does not transfer any additional risks to customers, given domestic customers can require their gas supplier to arrange for the provision of a replacement meter.

Ofgem is inviting responses in respect of all issues covered in this document. Following careful consideration of respondents' views in respect of these issues, Ofgem intends to publish a document setting out its views and any regulatory actions or changes to the wider market arrangements that it considers are required as a result of NGT's proposals.

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# 1. Introduction

- 1.1. This chapter explains the purpose of this document, the consultation timetable and how to respond to the consultation.

## ***Purpose of this document***

- 1.2. The purpose of this document is to consult gas suppliers, customers and other interested parties and to seek their views on any issues that may arise from NGT's proposals to restructure its metering businesses. The proposals will consolidate NGT's two metering businesses into a single meter operator organisation, which will be an affiliate of Transco plc. For the purpose of this document this organisation is referred to as 'NGT Metering'.

## ***Consultation timescale***

- 1.3. NGT has indicated to Ofgem that it has already discussed its plans with suppliers, explaining how these plans may affect them. NGT would like to implement its restructuring in April 2005. As NGT has been discussing its proposal with suppliers for several months, Ofgem has decided that it is appropriate to reduce the consultation period from its usual period of six weeks.
- 1.4. Responses are invited by 8 April 2005 on any issues raised by the proposals including those highlighted in the document. Following careful consideration of respondents' views, Ofgem intends to publish a document in April setting out its views and any actions that it considers are required as a result of NGT's metering proposals.

## ***Outline of document***

- 1.5. Chapter 2 outlines the background to the current metering activity arrangements and considers other related activities including the sale of Transco's distribution networks (DN Sales). Chapter 3 gives details of NGT's proposal for the restructuring of its metering businesses including the method of transfer / sale of meter assets. Respondents' views are invited on the detail of this proposal.

Chapter 4 details further issues for consideration in respect of this proposal on which respondents' views are invited.

### ***How to respond to this consultation***

- 1.6. Responses should be sent by 8 April 2005 to

Jenny Boothe

Markets

Ofgem

9 Millbank

London

SW1P 3GE

or by email to [wholesale.markets@ofgem.gov.uk](mailto:wholesale.markets@ofgem.gov.uk)

- 1.7. Should you wish to discuss any issues raised in this document please contact Jenny Boothe on 020 7901 7122 or Jo Witters on 020 7901 7159.
- 1.8. Responses will normally be published on the Ofgem website and held electronically in Ofgem's Research and Information Centre unless there are good reasons why they must remain confidential. Respondents should try to put any confidential material in appendices to their responses.
- 1.9. Comments or complaints on the manner in which this consultation process has been conducted should be sent to:

Mick Fews

Head of Licensing

Office of Gas and Electricity Markets

9 Millbank

London

SW1P 3GE

Email [michael.fews@ofgem.gov.uk](mailto:michael.fews@ofgem.gov.uk)

Tel 020 7901 7085

## 2. Background

- 2.1. This chapter provides an overview of the current gas metering arrangements and also details other activities ongoing in the metering market at present that may be relevant in considering the issues raised by NGT's proposal.

### ***Review of gas metering arrangements (RGMA)***

- 2.2. In May 2000 Ofgem published proposals<sup>2</sup> aimed at securing effective competition in the provision of gas metering services. In order to facilitate competition it was agreed between industry and Ofgem that new industry-wide processes needed to be introduced to enable companies other than Transco to provide competing meter services and meter reading services. This led to the establishment of the Review of Gas Metering Arrangements (RGMA) project. The aim of the RGMA project was to determine industry wide business processes and supporting data flows to underpin competition in gas metering services.
- 2.3. RGMA set about determining these industry wide business processes and associated data flows. The new processes went live on 12 July 2004 and put in place the processes to support the development of competition in metering services. RGMA also completed the implementation of organisational separation of Transco's transportation and metering businesses.

### ***Transco Metering***

- 2.4. Transco is a subsidiary of NGT. Transco owns and operates the integrated high pressure, medium and low-pressure gas transportation system that was part of the British Gas monopoly when the company was privatised. Ofgem regulates Transco's transportation business and associated revenues. Transco is licensed as a gas transporter under Section 7 of the Gas Act. This licence sets out the duties and obligations on Transco, including those in relation to metering, and

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<sup>2</sup> Securing effective competition in gas metering and meter reading services – The Director General's final proposals May 2000



prohibits various types of behaviour that may have a detrimental effect on the efficient and economic delivery of the gas transportation network.

### **Current structure of Transco metering**

- 2.5. NGT currently has two separate metering businesses. Transco fulfils its licence and contractual obligations, including being a “meter provider of last resort”, through its subsidiary Transco Metering Services (TMS). In addition, Utility Metering Services (UMS) is NGT’s competitive metering business. The effect of the proposed transfer on these businesses is discussed in more detail in Chapter 3.

### **Transco’s current price control**

- 2.6. Transco’s metering price control, under its gas transporter licence, limits the price that can be charged for four items. The metering price control limits the amount that Transco can charge each year for the provision and maintenance of a domestic credit meter (£13.50) and a prepayment meter (£29.98).<sup>3</sup>

### **Transco’s contracts with suppliers**

- 2.7. Since April 2004 Transco has offered suppliers new long term Metering Service Agreements (also known as “alternative contracts”) for their existing domestic meters (also called legacy meters) and for their new / replacement domestic meters.
- 2.8. NGT has indicated that the purpose of these alternative contracts has been to provide suppliers with the opportunity to pay a reduced credit rental price in return for suppliers managing the risk of meters being replaced prematurely and also to provide contract flexibility for NGT’s future metering strategies.
- 2.9. Metering Service Agreements (MSAs) for legacy domestic meters specify the rental price that Transco will charge for different types of meter, the rate at which meters are expected to be replaced and charges for premature

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<sup>3</sup> Amended Special Licence Condition 31, Transco’s Gas Transporter Licence – Restriction of prices in respect of tariff capped metering activities. These are domestic credit, domestic prepayment, provision of a

replacement/termination. Transco currently charges suppliers who have signed the MSAs £11.49 a year for a standard credit meter and £29.98 a year for a prepayment meter. NGT has indicated that suppliers have been given the choice as to whether or not they signed the MSAs and Ofgem understands that the MSAs now cover around 95% of all domestic meters.

- 2.10. All suppliers continue to rent non-domestic meters from Transco on the basis of price controlled terms and conditions under a Provision and Maintenance Agreement (PMA). Suppliers that have chosen not to sign the new MSAs also rent their domestic meters under the PMA. The PMAs do not include charges for premature replacement / termination.

## ***DN Sales***

- 2.11. NGT announced in May 2003 that it was considering the possibility of selling one or more of its Distribution Networks (DNs). NGT has also indicated that Transco's metering assets would not be included in any sale.
- 2.12. On 21 January 2005 the Authority announced that it had conditionally approved NGT's planned disposal of four of its gas distribution networks and on 27 January 2005 the DTI announced its consent to this sale.
- 2.13. Ofgem is currently consulting on the licensing framework necessary to protect customers within a divested industry structure.<sup>4</sup> As part of this consultation Ofgem has proposed that each DN will have obligations to act as meter supplier of last resort. The issue of meter supplier of last resort for DNs, and further DN sales related licence modification proposals, is not being considered as part of this consultation.

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daily meter read and exchange of a credit meter for a pre-payment meter.

<sup>4</sup> National Grid Transco - Potential sale of gas distribution network businesses - Formal consultation under section 23 and section 8AA of the Gas Act 1986, February 2005

## 3. NGT's proposal

- 3.1. This chapter details the current structure of NGT's metering businesses and outlines the proposed future structure for NGT Metering.

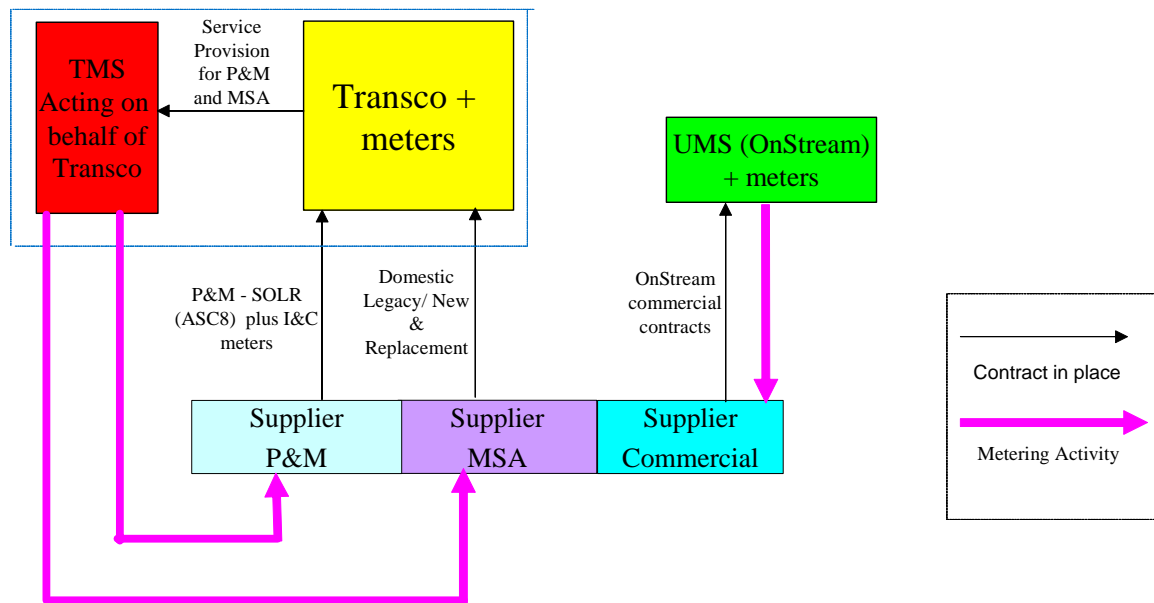
### ***Background***

- 3.2. In November 2004 NGT presented its restructuring proposals to Ofgem. NGT outlined its current metering structure and the proposed future structure with a view to having the new arrangements in place at the beginning of April 2005. Further discussions between Ofgem and NGT over the intervening period have drawn out a number of areas that Ofgem considered were worthy of wider consideration as part of a consultation process. This led to the development of this consultation document, and to facilitate this NGT has agreed to a slight delay in its timetable to implement its proposals.
- 3.3. NGT has indicated to Ofgem that this proposal to restructure its metering businesses was prompted by its desire to "have a metering organisation capable of working effectively in the newly competitive multi-utility metering market". In NGT's view the restructuring would optimise organisational efficiency leading to cost effective services for its customers. NGT also considers that the revised structure will provide an even clearer distinction between NGT's roles of transportation and metering.

### ***Current structure***

- 3.4. Figure 3.1 shows the current NGT structure relating to metering activity.

**Fig: 3.1 NGT's current structure**



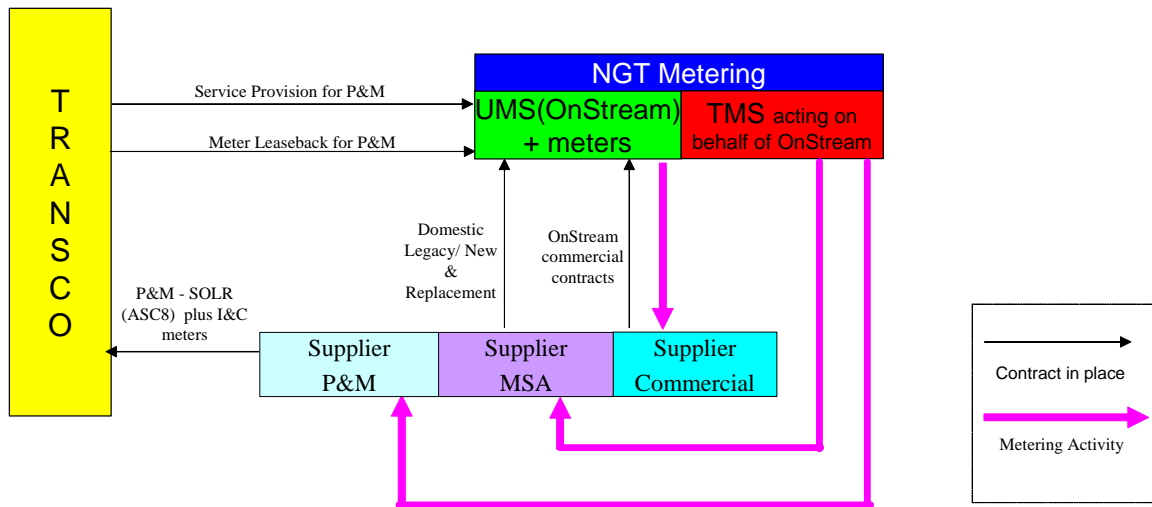
3.5. Transco Metering Services (TMS) is a wholly owned subsidiary of Transco plc. It has a contract (the Service Provision Contract (SPC)) with Transco plc which ensures that Transco is able to discharge its licence obligations and the contractual obligations under both of the new MSAs and the PMA. There is also a General Service Agreement (GSA) between the two companies for the provision of services such as payroll and procurement by Transco to TMS.

3.6. Utility Metering Services (UMS) is an NGT company that was set up in 2001 to respond to opportunities in the competitive electricity and gas metering markets. UMS' trading name is OnStream and it currently holds a number of contracts with unrelated third parties for the provision of gas and electricity metering services.

### ***Proposed future structure***

3.7. Figure 3.2 shows NGT's proposed new structure where both TMS and UMS become subsidiaries of a new entity, NGT Metering.

**Fig.3.2 NGT's proposed new Metering Business structure**



3.8. Transco (in its role as licensed gas transporter) will still retain the obligation of meter supplier of last resort.<sup>5</sup> Transco has indicated that it will discharge this obligation via an on-going SPC with NGT Metering and by 'leasing back' the relevant meters.

3.9. NGT has indicated that the MSAs include provisions that allow them to be novated. NGT has provided confirmation to Ofgem that suppliers who have signed the MSAs were given formal notice on 22 December 2004 that these contracts will be novated from Transco plc to UMS.

3.10. NGT has also confirmed that all suppliers will continue to be covered by the PMAs for non domestic meters, and that suppliers that have not signed the MSAs will be covered by the PMAs for domestic meters as well. For the purpose of clarity, the PMAs are not being novated as part of NGT's proposal, and will continue to be arrangements between Transco plc and suppliers.

<sup>5</sup> Amended Standard Licence Condition 8 – Provision and return of meters  
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## ***Method of Transfer***

- 3.11. NGT has indicated that it proposes to create a new holding company, NGT Metering. As part of NGT's proposal UMS and TMS will become subsidiaries of NGT Metering.
- 3.12. The transfer of metering assets, including associated installation equipment, will be from Transco plc to UMS with the transfer price for the assets determined on the basis of market value.
- 3.13. TMS will be sold to NGT metering at market value. The operating capabilities of TMS and UMS will be re-organised into a single metering business. UMS will fulfil the terms of the SPC following the sale. NGT has indicated that this situation will only be for the current term of the service provision contract (SPC) after which subsequent service provision contracts will be awarded in accordance with the relevant procurement regulations.
- 3.14. The MSAs between Transco plc and suppliers will be novated to UMS as part of this process.

## 4. Views invited and way forward

- 4.1. As noted in earlier chapters, discussions between Ofgem and NGT in respect of this proposal have drawn out a number of areas that Ofgem considered were worthy of wider consideration as part of a consultation process.
- 4.2. This chapter discusses these issues in more detail and invites views on these and any other issues that respondents wish to raise in respect of this proposal.

### **Issue 1 – what are suppliers' views in respect of the extent to which they have been made aware of this proposed sale and the contract options they have been offered by NGT?**

- 4.3. NGT has confirmed to Ofgem that the MSA agreements have always included both provisions for novation and for the rebalancing of pre-payment meters and credit rentals. These provisions have therefore been visible to suppliers over the life of the MSA contracts.
- 4.4. As part of its proposed disposal of these assets however, NGT has also confirmed to Ofgem that it has gone through a process of ensuring that suppliers are aware of its plans. NGT has confirmed that it wrote to all suppliers and interested parties in early December 2004 detailing its plans to dispose of these assets and providing contacts for information purposes.

#### **4.5. *Ofgem invites views on this issue.***

### **Issue 2 – whether suppliers consider that they can effectively access the price controlled tariffs for gas meters under NGT's proposals**

- 4.6. NGT has indicated to Ofgem that it has offered suppliers the option of remaining on the previous price controlled terms or to move to the novated contracts.

#### **4.7. *Ofgem invites views on this issue.***

### Issue 3 – what issues arise from the rebalancing of meter charges?

- 4.8. Currently, Transco's metering activity is subject to price controls under its gas transporter licence.<sup>6</sup> Amongst other things, these set a "cap" on the amount that Transco can charge for different types of domestic meter. At present, these caps apply even to those meters that are the subject of the MSA contracts (as the contracts are currently between Transco plc and suppliers). In respect of domestic meters, Transco cannot presently increase the contract charge above the price control cap and pre-payment meters remain at the capped charge in the MSAs.
- 4.9. However, the pre-payment meter price control does not reflect full cost recovery for Transco. In September 2001, when the final proposals on Transco's price control were published<sup>7</sup> the price control reflected Transco's costs adjusted for potential efficiency gains. At the time Ofgem indicated that the differential between domestic credit meters and pre-payment meters would remain in place until there was effective choice over alternative prepayment systems. This was on the basis that the existence of a price controlled cap on Transco's pre-payment meter rental charges may have a detrimental effect on the ability of new entrants to compete in the pre-payment meter market. Increased competition in this market was anticipated by April 2004<sup>8</sup> on the basis that BGT and TXU had tendered for metering services. Subsequent events have resulted in metering competition in gas developing at a slower rate than was anticipated at that time.
- 4.10. If the proposed transfer takes place, the meters that are the subject of the MSA contracts will no longer be subject to Transco's price control (because the obligation rests with Transco as the licensee and not with UMS, its affiliate). However, NGT has also indicated that both of the MSAs have pricing schedules that provide a supplier with price certainty over the whole life of the contracts. NGT is of the view that once the requirement of the price control in respect of

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<sup>6</sup> Amended Special Licence Condition 31, Transco's Gas Transporter Licence – 'Restriction of prices in respect of tariff capped metering activities'.

<sup>7</sup> 'Review of Transco's price control from 2002: Final proposals'; Ofgem September 2001.

<sup>8</sup> In Ofgem's June 2001 Draft Proposals document the date for effective choice was April 2003 so by the



pre-payment meter rentals is removed, thereby ensuring that one group of customers is not subsidised by another, UMS will be obliged to rebalance the credit and pre-payment meter rentals to comply with the requirements of the Competition Act 1998.

- 4.11. NGT has indicated that the terms of the MSA contracts provide for the rebalancing of pre-payment meters and credit rentals upon and following novation. To unwind the existing cross subsidy in respect of the provision of these meters, NGT has indicated that the cost for a pre-payment meter will increase and the cost of a credit meter will decrease, but the novatee (UMS) must remain financially neutral on a Net Present Value basis over the duration of all of the MSA contracts.<sup>9</sup> The impact on individual suppliers will depend on the balance of pre-payment and credit meters within the supplier's portfolio. The impact on customers will depend on whether the supplier chooses to pass on the effect of any rental increase or decrease.
- 4.12. NGT has indicated that the increased rental for a pre-payment meter is likely to be similar to the un-scaled pre-payment meter cost in Transco's Metering Charging Statement (and therefore will be in the region of £46.75), and will reflect Transco's view of the cost of providing the meter.
- 4.13. Ofgem's intention in setting Transco's metering price control was to protect customers until competition had developed sufficiently. A disapplication process is provided for under Transco's gas transporter licence, which provides a method by which Transco can apply for certain elements of its price control to be disapplied.
- 4.14. While Ofgem acknowledges that the result of removing these meters from Transco's price control was not the primary objective of NGT's proposal, having considered the option of disapplication as specified in Transco's gas transporter licence, Ofgem considers it may be appropriate for NGT to use this method to remove these meters from the price control as part of its proposal.

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September Final Proposals document this date had already gone back 12 months.

<sup>9</sup> OnStream will provide indicative prices to contract signatories by 22 March. These will only be indicative prices as the right to formally notify suppliers does not exist until the MSAs have been novated.

4.15. Ofgem considers that should NGT take forward the proposed sale of its metering assets without following the defined disapplication process this may set a precedent for future structural changes, which may have the effect of moving certain activities away from direct price control regulation without appropriate regulatory consideration or consent.

**4.16. Ofgem invites views on this issue**

**Issue 4 – whether there are any issues raised by the proposal in respect to the transfer of the status of ‘Gas Act Owner’ and the associated responsibilities that are passed on with this transfer?**

4.17. The Gas Act 1986 currently provides for meters to be kept in proper order by a consumer, when the consumer owns the meter or the meter is lent or hired to him otherwise than by the gas transporter or the relevant gas supplier. Where the meter is owned by a gas transporter or a gas supplier and is lent or hired to the consumer, the responsibility falls to the gas transporter or the gas supplier.<sup>10</sup>

4.18. Transco’s view is that unless a supplier considers that the MSAs are leasing agreements (and treats them as such from a financial reporting perspective), or that ownership within both the supplier and transporter licences is interpreted as including rental arrangements, then a strict legal interpretation of the Gas Act may indicate that the obligation falls to the consumer. Transco has also indicated (as have some suppliers in discussions with Ofgem) that this should perhaps become the relevant suppliers’ responsibility. However, as noted, the drafting of the Gas Act does not clearly accord with this view, and it is more likely that a strict legal interpretation of the Act alone is that these responsibilities fall to the consumer.

4.19. Following RGMA, where a supplier contracts with an independent Meter Asset Manager (MAM), that is where the supplier does not own legal title to the meter, that supplier needs to comply with the provisions of Modified SLC 34 of the Gas Supplier Licence.<sup>11</sup> This condition provides that an authorised MAM<sup>12</sup> can take

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<sup>10</sup> Gas Act 1986, as amended – Schedule 2B

<sup>11</sup> Amended Standard Licence Condition 34, Gas Suppliers Licence – Metering Arrangements for Domestic National Grid Transco – restructuring of its metering businesses

on the responsibilities on behalf of the supplier for arranging installation and carrying out 'Meter-Related Services' (as defined under that condition).

- 4.20. Further to this, Ofgem noted in its June 2004 document<sup>13</sup> (in response to a number of respondents requesting clarification of the term "owned" in relation to the supplier's obligation to record and retain details of meters they own) that 'in line with the definition provided in SLC 1 of the supplier's licence the term "owned" encompasses gas meters physically owned by the supplier or meters that have been leased or rented from a third party'.
- 4.21. Transco has indicated that the terms of the MSA agreements state that the maintenance obligations of the contract include the activities required to keep meters in proper order for the measurement of gas as required by the Gas Act. The obligations of these contracts will be unchanged by this proposal and, as such, the requirements of the Gas Act will be met through the MSAs regardless of the identity of the 'Gas Act owner'.
- 4.22. In respect to concerns about a consumer picking up responsibilities for keeping the meter in proper order, conditions within the gas supplier's licence therefore should provide some comfort that these responsibilities are being looked after by a competent and authorised party. However, the issue remains that this is only in respect to those situations where the domestic customer has requested the supplier to arrange provision of a meter by a MAM (as per SLC 34(2)). In practical terms, it is acknowledged that suppliers automatically arrange for meter installation and the carrying out of 'Meter-Related Services' on behalf of the consumer without seeking a formal request. There are very few instances where domestic consumers have decided to make their own arrangements for metering. However, Ofgem is aware that commercial environments may change and, as such, is keen to ensure that responsibilities associated with keeping meters in proper order do not default to the consumer.

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Customers.

<sup>12</sup> That is, a person approved by the Authority as possessing expertise satisfactorily to provide Meter-Related Services or a class or description of persons so approved ("relevant expertise") (as defined under SLC34 of the Gas Suppliers Licence.

<sup>13</sup> Ofgem document Competition in the Provision of Gas Metering Services: Licence Amendments - Decision Document & Section 23 Notices (June 2004 130/04); para 4.63.

- 4.23. Given this current legislative and regulatory framework, Ofgem considers it is important that contracts between gas suppliers and their customers reflect that these responsibilities are taken on by the supplier on behalf of the customer.
- 4.24. The remaining issue for consideration in respect to the 'Gas Act owner' is whether the current framework providing for use of contracts between suppliers and customers is sufficient. One option would be to modify the gas supplier's licence (Modified SLC34) to make it a requirement that the supplier picks up obligations for 'keeping the meters in proper order' on behalf of the consumer, unless the consumer notifies the supplier that it wishes to take on these obligations by arranging for provision of their own meter installation and Meter-Related Services. This would retain the option of the supplier also arranging for a MAM to carry out the Meter-Related Services.

**4.25. *Ofgem invites views on this issue.***

**Issue 5 – are there issues concerning the Weights and Measures Act 1985 that should be considered as part of NGT's proposal?**

- 4.26. A large number of existing gas meters measure gas consumption in imperial measures. The Weights and Measures Act 1985 (WMA) prohibits the use for trade of any imperial cubic measure, providing that the measurement is to be carried out in metric units. The majority of domestic gas meters measure the volume of gas in cubic feet, but as is the case with meters that measure in cubic metres, this is then converted into energy in order to charge the consumer for the gas used.
- 4.27. There is an exemption provided in the WMA for measuring equipment measuring in cubic feet if it was placed on the market and used before 1 December 1980. Under the WMA it is the responsibility of the person who is trading to ensure that the measuring device is compliant with the terms of that Act. Currently it is estimated that approximately 70 per cent of Transco's portfolio of in-situ meters measure in cubic feet.
- 4.28. The issue of whether or not the continued use of imperial meters falls within the exemption for measuring equipment prior to 1 December 1980 is long standing

and one that has been the subject of extensive discussions between NGT, the Department of Trade and Industry (DTI) and Ofgem. NGT has indicated that it has considered this matter at some length and has concluded that it is legal to continue the use of these meters, they continue to accurately measure the quantity of gas consumed, and as such they have remained in use for a number of years.

- 4.29. As noted, Ofgem has been involved in these discussions with both the DTI and NGT. Ofgem has, in these discussions, set out our view that it would not be in the interests of consumers to force a change in the type of meter used to register their use of gas from imperial to metric when the meters are capable of continuing to accurately measure the quantity of gas consumed. Ofgem considers the costs to consumers of doing so would likely be extremely large (potentially in excess of £1billion) and it would be better to maintain the current 'glide path' for replacement of meters from imperial to metric when those meters reach the end of their useful life.
- 4.30. NGT has indicated that it does not consider that its proposal transfers any additional risks to customers in respect to WMA obligations, given that domestic customers can require their gas supplier to arrange for the provision of a replacement meter. That is, in the event that a court ruled that the use of imperial meters is illegal, domestic customers would be able to require their gas supplier to arrange for the provision of (an alternative metric) meter owned by the supplier or the relevant gas transporter.<sup>14</sup> Therefore, in NGT's view, this proposal does not place any additional risk in respect of the 'legality' of gas meter provision onto the consumer.

- 4.31. ***Ofgem invites views on this issue***

## ***Way Forward***

- 4.32. As discussed in Chapter 1, NGT would like to implement its restructuring plan in April 2005. Ofgem is inviting views in respect to all issues covered in this

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<sup>14</sup> Gas Suppliers Licence - Condition 34 Metering Arrangements for Domestic Customers  
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document by 8 April 2005. Following careful consideration of respondents' views to this document, Ofgem intends to put out a further document detailing actions, if any, that it considers are required as a result of the proposed sale going ahead.