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20 December 2006

Dear Sir/Madam

**Proposed Amendments to the Distribution Licence in Light of Removal of Electricity Metering Obligations**

As you will be aware, in October of this year Ofgem decided to allow the obligations on electricity distribution network organisations (DNOs) with respect to the provision of new/replacement meters and meter operation services to fall away from 31 March 2007. This letter sets out licence changes we propose to make as a consequence of this decision, and highlights implications for distribution businesses.

Some DNOs have differing interpretations of certain areas of the licence, particularly with respect to the price controls on electricity metering services after the 31 March 2007 sunset date. In the interests of regulatory certainty, we believe that **consequential amendments to the distribution licence are advisable** in order to resolve these matters.

Some of these proposed amendments **could have important consequences for the structure of metering and distribution businesses** from 31 March 2007. We therefore ask that DNOs consider our proposals at the earliest opportunity, and **advise us by no later than 15 January 2007** of any initial concerns. Formal agreement will of course be subject to consultation on the draft licence conditions, once these are available.

The changes we propose to the distribution licence will make it clear that:

1. After 31 March 2007, **basic metering services – other than the provision of legacy meters – no longer fall within the definition of a distribution business**. Therefore, DNOs that wish to continue providing new/replacement meters and meter operation (MOp) services will need to do so **through a separate subsidiary**. This will involve redrafting parts of Standard Condition 36, and possibly Standard Condition 1 (Definitions and Interpretation), in order to specify that provision of

legacy meters is the only metering activity that continues to form part of the distribution business once the obligations to offer other metering services fall away.

2. The **current price controls on the provision of new/replacement meters and meter operation services will cease on 31 March 2007**, and **no disapplication request is required** from DNOs in order to remove these controls. Ofgem's view is that this point is already clear in terms of the wording of Special Condition F1 (paragraphs 2 and 9) of the licence. However, for the avoidance of doubt we will undertake drafting changes to Special Conditions F1 and/or A4 of the licence, as well as to Standard Condition 36 as above.
3. **Legacy meters must continue to be provided by DNOs until the end of their useful economic life** – ie, until such time as the meter is changed out and taken off the wall. This will involve drafting changes to Standard Condition 36, to clarify that the price controls and obligations on legacy meters will apply to all meters installed (rather than "provided") prior to 31 March 2007.
4. Finally, a secondary consideration is that once the electricity metering sunset clauses take effect, there is benefit to be gained from "tidying up" the licence by taking out any conditions that are no longer applicable – such as the price control provisions for meter operation services.

We believe that the licence changes set out above are fully in line with Ofgem's stated policy intentions with respect to metering, and will help to resolve any differences in interpretation of the licence in a straightforward way.

However, we acknowledge that the timeframe - particularly for implementing point 1 above (separation of unregulated metering services from distribution) – is now fairly short. Accordingly, **we would welcome feedback from DNOs as to whether you have any concerns regarding this proposal, and whether separation is realistically achievable in advance of the 31 March 2007 deadline**. If it is not, we are willing to consider granting consents to allow the current arrangements to continue for such transitional period as is reasonably required under the current *de minimis* thresholds.

As set out above, we ask that DNOs **advise us by no later 15 January 2007** of any initial concerns with our proposed licence amendments. Unless we hear otherwise, we will proceed with drafting the revised licence conditions with a view to issuing these for formal consultation by early February, alongside any licence amendments arising out of the current consultation process on the premature replacement of electricity prepayment meters. This should allow us to finalise all necessary amendments to the distribution licence by 31 March 2007.

If you have any queries, please do not hesitate to contact me.

Yours sincerely,



**Rachel Fletcher**  
**Head of Retail Markets**