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23 January 2006

Dear Sir/Madam

**Re: Licence Amendments Relating to PPM Premature Replacement and Removal of Electricity Metering Obligations – Early Draft**

Attached to this letter is an early draft of amendments Ofgem is proposing to make to the distribution licence. These amendments relate to two issues: (1) compensation for PPM premature replacement and (2) the removal of electricity metering obligations from DNOs. Our proposals are discussed in more detail in our recent letters of 20 December 2006 ("Proposed amendments to the distribution licence in light of removal of electricity metering obligations") and 11 January 2007 ("Licence amendments relating to PPM premature replacement and removal of electricity metering obligations").

This early draft of the licence amendments is **provided for information and informal comment at this stage**, in order to assist us with finalising the licence amendments for statutory consultation in early February. The current draft reflects our proposals as set out in our letters of 20 December 2006 and 11 January 2007, but we are continuing to work through some issues that have been raised in response to these letters – in particular, regarding our proposal to remove metering services (other than the provision of legacy meters) from the definition of a distribution business. This proposal would mean that DNOs that wished to continue providing metering services (other than legacy meter provision) would need to do so through a separate subsidiary unless the activity remained below the *de minimis* thresholds.

In light of the comments received to date, we are **maintaining an open mind on the metering business separation question**, and have not made a firm decision at this stage as to whether to remove metering services from the definition of a distribution business. However, the attached draft sets out the licence changes that we believe would be necessary in order to give effect to this proposal, should it go ahead.

For simplicity, the amendments are set out as **tracked changes** to the current distribution standard licence conditions and special licence conditions. The special licence for Central Networks East has been used as a model, as the relevant sections do not appear to differ across licensees.

We would welcome comment on any aspect of these draft licence amendments at the earliest opportunity, and preferably no later than 2 February 2007.

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

Yours sincerely,

A handwritten signature in grey ink, appearing to read 'Rachel Fletcher'.

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