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Dear Colleague

Licence Fee Payments: Transfer of statutory responsibilities for Gas and Electricity Metering Functions from Ofgem to National Weights and Measures Laboratory

I am writing to notify you of a proposed change in relation to statutory responsibility for gas and electricity metering functions.

The proposed change will affect standard licence conditions 'Payments by the Licensee to the Authority' and 'Payments to the Authority' for those businesses ("relevant licence holders") holding the following types of licence:

- Gas transportation,
- Electricity transmission (where the licensee has been issued a Section C Direction which is still in effect), and
- Electricity distribution.

The change is expected to have a neutral effect on the licence fee paid by relevant licence holders.

Background

You may be aware that, since April 2006, most of Ofgem's statutory functions in relation to the technical aspects of gas and electricity meters have been carried out by National Weights and Measures Laboratory¹ (NWML) under an administrative arrangement set out in a memorandum of understanding. This was a first stage in creating a single point of reference and expertise for measuring instruments in the UK and ensuring full alignment of UK legal metrology policies, particularly regarding consistency with the European Measuring Instruments Directive (MID). The final stage of the process is to transfer the relevant statutory responsibilities from Ofgem to NWML.

The transfer involves only those functions of Ofgem which relate to legal metrology (essentially, the accuracy of meters and ensuring long term conformance to performance requirements), NWML will not be assuming responsibility for other areas of policy relating to meters (such as the roll-out of smart meters or the rules on prepayment meters).

¹ National Weights and Measures Laboratory is an executive agency of the Department for Innovation, Universities and Skills

Following the transfer, Ofgem and NWML would of course continue to co-operate closely in areas where their activities have implications for each other.

The Energy Bill has been identified as a suitable legislative vehicle to achieve the proposed statutory transfer of functions. The Bill will be introduced into Parliament when Parliamentary time permits.

The effect of the transfer

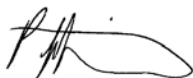
Following the proposed transfer, the cost of gas and electricity metering functions would no longer be subsumed in the element of the licence fee relating to Ofgem's own costs. Instead, there would be a separate element of the licence fee reflecting the costs of NWML in carrying out its legal metrology work relating to gas and electricity meters. Ofgem's administrative costs will be reduced while an equivalent amount would be allocated to NWML. The net effect on licence fees is expected to be neutral.

Once the Energy Bill has become law, subject to consultation, the standard licence conditions of relevant licence holders would be amended by the Secretary of State to reflect the transfer of responsibilities and ensure that the costs associated with metering continues to be met through the licence fee cost recovery mechanism.

This would also result in an update to Ofgem's Licence Fee Cost Recovery Principles².

If you have any comments on the above proposal, please contact me by 13th November 2007 at the latest.

Yours sincerely,



Paul Heseltine
Head of Finance

² Licence fee cost recovery principles, issued December 2005, available at:
<http://www.ofgem.gov.uk/Licensing/Work/Documents1/12424-Licence%20fee%20cost%20recovery%20principles%20December%202005.pdf>