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| Proposed variation: | Distribution Connection and Use of System Agreement (DCUSA) DCP008: Provision of Urgent Metering Service | | |
| Decision: | The Authority ¹ rejects this variation | | |
| Target audience: | Parties to the DCUSA and other interested parties | | |
| Date of publication: | 24 July 2008 | Implementation Date: | Not applicable |

Background to the proposed variation

Metering services have traditionally been provided by local electricity Distributors as part of their regulated monopolies. The introduction of competition in metering services has allowed electricity Suppliers to choose between alternative providers, potentially offering cost savings, better standards of service and other forms of innovation. However, this competition has also separated out some of the roles and responsibilities within the market.

Under the Supplier-hub principle Suppliers have the responsibility for procuring the provision and ongoing maintenance of meters, including the repair or replacement of faulty meters provided by the Supplier. Of course not all metering faults can be diagnosed over the telephone, and a loss of supply incident with an as yet unknown cause will ordinarily result in the Distributor visiting the site, as they have the responsibility for responding to calls logged by customers with the Distributor's Safety and Faults Information Centre (SFIC). This raises the issue of whether the Distributor should use reasonable endeavours to resolve the meter fault during that first visit, potentially minimising the disruption to the consumer (the 'single visit' principle), or refer the matter to the Supplier who has responsibility for that meter.

The Review of Electricity Metering Arrangements (REMA) project was established by Ofgem in 2001 in order to develop the industry procedures and agreements required to facilitate the separation of metering activities. One of REMA's objectives was to establish a common set of services, service levels and procedures with respect to the urgent metering services that each Distributor may provide where they are not necessarily the appointed metering agent. The output of this work was consulted upon² and subsequently published in a document entitled "*Urgent Metering Services (UMetS)*". This document advocated a 'single visit' principle, but was not made binding.

The majority of metering obligations have subsequently been removed from the Distribution licence along with the price controls on the tariffs charged for those services³. Since that time, some Distributors have withdrawn from the provision of new and replacement meters and of metering services (installation and maintenance). However, Distributors retain obligations to provide under price control meters installed by the Distributor prior to 31 March 2007.

This situation contrasts with that in gas, where Gas Distribution Network (GDN) operators retain obligations to provide a metering service of last resort. Ofgem recently issued revised guidelines regarding the provision of Post-Emergency Metering Services (PEMS)

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² http://www.ofgem.gov.uk/Markets/RetMkts/Metrng/Comp/Elec/Documents1/1993-Ofgem_UmetS_letter_6december02.pdf

³ Ofgem's decision on the future of the gas and electricity metering price controls, 13 October 2006 - Ref: 187/06.

in gas (the equivalent of UMetS in electricity)⁴. In the covering letter for those guidelines we noted that Gas Distribution Network (GDN) operators are currently in a good position to offer 'one-stop shop' PEMS to the industry because they already have licence obligations⁵ to respond to network emergencies (e.g. suspected gas escapes) on their Networks, as well as obligations to provide a metering service of last resort. However, we also noted that there are differences between the structure and regulatory obligations in gas and electricity metering and therefore what is appropriate in gas PEMS may not have a direct read-across to UMetS.

The proposed variations

DCP008 seeks to build upon the earlier work of REMA by introducing a new clause into the DCUSA which would prescribe the circumstances under which UMetS would be provided by Distributors and also the scope of that service. Associated definitions would also be introduced and consequential changes made to other clauses of the DCUSA as appropriate.

A number of variations to the original proposal have been developed, the key elements of which are set out below. The differences between them largely reflect the differing circumstances under which UMetS may be desirable. For ease of reference we have reproduced a summary table provided as part of the initial consultation contrasting the various proposals; this is appended to this letter.

Recognising that new meter provision is no longer part of the Distributors' licence obligations, under all variations the ownership of any replacement meters provided as part of the UMetS would revert to the Supplier at the time the meter is re-energised, with Suppliers being responsible for subsequently passing ownership to their metering agent as appropriate. It is also a common feature that if the Distributor's replacement meter does not have the same functionality as the removed meter, a subsequent visit may be required. UMetS therefore limits, rather than entirely removes, the need for a second visit.

DCP008A is a refined version of the original, developed by the working group. Under this variation metering faults which are identified during a telephone call to the Distributor's SFIC would be referred to the Supplier, or the Supplier's appointed metering agent. This will give the Supplier the same opportunity to manage the response as if the call had been received by its own call centre. The exception to this would be if the Distributor identifies the customer as being vulnerable, and the call is received outside of normal working hours (i.e. when a Supplier may be unable to respond), in which case UMetS would apply and the Distributor would respond.

Where a metering fault is identified only after a site visit, DCP008A proposes that the Distributor should provide UMetS if the visit is out of normal working hours, or if the customer is vulnerable. In other circumstances, the fault will be referred to the Supplier (or the Supplier's agent), either directly or by requesting the customer to do so. The Supplier will then arrange for the necessary metering work to be carried out. All Distributors would be required to provide the same basic service and all Suppliers would be obliged to accept the service and resulting charges.

⁴ See letter dated 6 June 2008 at:

<http://www.ofgem.gov.uk/Markets/RetMkts/Metrng/Comp/Gas/Documents1/Gas%20PEMS%20-%20final%20decision%20letter%20and%20guidelines%20for%20publication.pdf>

⁵ Condition A8 of the Standard Special Conditions applicable to both NTS and DN licensees.

DCP008B differs from the other variations in that the UMetS would be optional in all aspects, i.e. regardless of whether the fault is identified by telephone or on site, in or out of working hours, or whether the consumer is considered to be vulnerable. Parties would not be obligated to provide or procure UMetS, but can choose to opt into or out of the service with six months written notice; this would apply to both Suppliers and Distributors.

This variation recognises that there is now a competitive market for metering services and therefore leaves it to the commercial discretion of the Distributor to offer, and the Supplier to take, UMetS. Distributors choosing to offer UMetS would be required to publish details of the service and associated charges in the Relevant Charging Statement, and Suppliers would be obligated to pay for all services taken. It is noted that charges would not be prescribed in the DCUSA but would be driven by market forces. Higher levels of service may also be available via separate commercial agreements.

The DCUSA allows only two alternatives to proceed to consultation; therefore **DCP008C** lapsed, but was subsequently raised as DCP026. This variant would have obligated DNOs to offer an UMetS service, but would have given Suppliers the right to opt out. The UMetS would have applied wherever the customer is vulnerable, or the metering fault is identified outside of normal working hours. Faults reported within working hours by a non-vulnerable consumer would be referred to the Supplier. DCP026 did not attract sufficient support at the initial assessment stage and was rejected under DCUSA rules.

DCP008D is the original amendment proposal and closely resembles DCP008A, though all faults identified remotely (i.e. not as part of a site visit) would be referred to the Supplier, including those out of hours from vulnerable consumers. This variation gives the Supplier the responsibility for managing the important first visit, and the opportunity to decide which services they want to be undertaken in those circumstances, rather than placing this discretion with the Distributor.

However, if the meter fault is identified while the Distributor is on site, the Distributor would undertake UMetS, regardless of whether the consumer is vulnerable, or whether they are in or out of normal business hours, therefore minimising as far as practicable the need for a second visit.

Under this variation the UMetS service would mandate a basic level of service (the replacement of the faulty meter with a single rate credit meter), though the Distributor would be given discretion to install meters with greater functionality, i.e. a 'like for like' replacement, rather than requiring a separate bi-lateral agreement with suppliers.

Recommendation to Ofgem

The recommendation of DCUSA Parties was for each of the proposed variations, DCP008A, DCP008B and DCP008D, to be rejected. This was consistent across each of the Party Classes (DNO, IDNO, and Supplier).

Notwithstanding their views on the variations themselves, Parties were also asked to vote separately on the proposed implementation date of the June 2009 DCUSA release, and also recommended that this implementation date be rejected.

The Authority's decision

The Authority has considered the issues raised by the three proposed variations of DCP008, as set out in the change declaration report dated 19 June 2008. The Authority has considered and taken into account the responses to ElectraLink's⁶ consultation which are attached to the change declaration⁷ and the recommendation of the DCUSA Parties. The Authority, having regard to its principal objective and statutory duties under sections 3A to 3D of the Electricity Act 1989, has concluded that implementation of any of the proposed variations would not better facilitate the achievement of the Applicable DCUSA Objectives⁸.

Reasons for the Authority's decision

Whilst we have sympathy with the intent behind DCP008, in particular the desire to ensure that as far as practicable faults are corrected at the first visit, we do not consider that any of the proposed variations would better facilitate the achievement of the applicable objectives of the DCUSA.

Moreover, as noted earlier, electricity Distributors (unlike GDN operators) no longer have obligations to provide metering services, aside from the ongoing provision of legacy meters. Respondents have stated that the costs of providing UMetS will be high for those Distributors that do not currently offer metering services⁹, and it is likely that these costs will ultimately be borne by consumers. Therefore, with regard to the Authority's principal objective of protecting the interests of consumers in relation to electricity conveyed by distribution systems, the costs of UMetS need to be set against any benefits arising from the 'single visit' principle. Since little evidence has been presented of consumer detriment arising from the current arrangements, it is not clear that any of the DCP008 variations would benefit consumers overall.

It is in this context that we have considered the proposals against each of the applicable DCUSA objectives below. Although variation DCP008C is not with us for consideration owing to the restrictions within the DCUSA modification rules, we have nonetheless also provided our views on that variation in order to avoid any uncertainty as to our position.

In what follows, it should be noted that where no specific impact has been highlighted for a particular variation under the relevant objective, it can be assumed that the Authority considers the impact to be neutral.

Applicable objective (a): the development, maintenance and operation by the licensee of an efficient, co-ordinated and economical Distribution system

Any additional obligation will impose costs upon the obligated party; we therefore need to consider whether those costs would be efficiently incurred. In the case of the UMetS

⁶ The role, functions, and responsibilities of Electralink are set out in Section 1B of the DCUSA.

⁷ DCUSA change proposals, modification reports and representations can be viewed on the DCUSA website at <http://dcusa.co.uk/Public/Default.asp>

⁸ As set out in the Distribution Licence Standard Condition 22.2, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=13701

We note that these Applicable DCUSA objectives do not differ to those set out in the former SLC 9B(9).

⁹ Obtaining precise figures has proved difficult, but WPD in its response to the consultation suggested a set-up cost of £1M

variation we have considered whether the Distributor is in a position to provide the service more efficiently than the Supplier.

We understand from responses that several Distributors already carry out a form of the UMetS, albeit informally, with direct cost recovery. For instance, one independent Distributor confirmed that an increasing number of call outs were caused by faults to the isolator, rather than the meter. They suggested that in those circumstances they will replace the isolator, which ordinarily forms part of the meter installation, in order to restore supply. However, they confirmed that they would not undertake the repair or replacement of the meter itself.

Given the optional nature of **DCP008B**, we do not consider there would be any significant impacts on the efficiency of the distribution system, as it is likely that only those Distributors who are able to offer an economic UMetS service would do so; indeed it was recognised by the proposer that it may be more costly for the Distributor to provide these services than other alternatives such as the provision by meter operators and commercial service providers. However, we do share the concerns of those respondents who suggested that this variation may cause confusion, both to call centre staff and to the consumer.

Parties are currently free to enter into UMetS arrangements on a commercial basis, so their inclusion into formal governance on an optional basis would offer little additional certainty. Whilst we consider that there may be value in the industry working towards a common set of minimum standards for UMetS, this could be achieved outside of the governance of the DCUSA document. We have therefore been unable to conclude that this variant would better facilitate the achievement of an efficient distribution system, and to the extent it complicates call centre routines, may have a marginally negative effect.

We are aware that **DCP008C** attracted a reasonable degree of support from some respondents. However, we consider that DCP008C would have been the least favourable variation in respect of efficiency of the distribution system. Distributors would be required to make substantial up-front investments in order to discharge their obligations, whether through their own metering arm or via a sub-contract, yet would have little or no certainty of demand for the service.

We agree with those respondents who suggested that **DCP008D** is most closely aligned to the principles of UMetS as it would apply only to those faults which are identified on site as being meter-related. Subject to the numbers of actual calls, **DCP008A** may be more efficient than DCP008D as it would additionally allow meter faults identified on site and in hours to be referred to the Supplier, which should result in the Distributor undertaking less meter work. However, under DCP008A the Distributor will also undertake out-of-hours work for vulnerable customers. Whilst recognising this may offer the consumer additional protection, it is also likely to expose the Distributor to greater costs per visit.

For the overall efficiency of the industry, as well as the customer experience, it is appropriate that the Distributor should have the opportunity to resolve the fault at the first visit if they are able to do so economically. However, Distributors are not precluded from providing such a service and in some cases are already doing so. We are not persuaded that mandating any aspect of the UMetS under the DCUSA would mean that it is delivered in a more efficient manner; indeed limiting parties' flexibility may have a negative impact. More generally, we agree with those respondents who suggested that

Distributors are not necessarily in a position to offer an UMetS service more efficiently than the Supplier, particularly smaller Distributors or those who have dispensed with metering operations following the amendments made to their licences.

Applicable objective (b) the facilitation of effective competition in the generation and supply of electricity and (so far as consistent therewith) the promotion of such competition in the sale, distribution and purchase of electricity

Several respondents raised concerns over the potential impacts that the proposed variations could have on competition in metering, which we consider to be separate though related to the supply of electricity. In essence, the Distributor will, by virtue of their attendance to the loss of supply incident, have an opportunity to provide metering services which other meter operators do not.

There may also be an impact, albeit indirect and marginal, upon competition in supply to the extent that the costs and levels of service associated with metering is a differentiating factor between Suppliers. This may include the different levels of service that a Supplier may offer in the event of a meter fault or other loss of supply incident.

These potentially detrimental impacts on metering and supply competition apply to all of the variations aside from **DCP008B**, which we consider to be generally neutral with respect to applicable objective (b).

We note the comments in support of **DCP008D** as it would apply at any time of day, with no discrimination between customer class and that it would be consistent with the principle of getting the customer back on supply rather than the DCP008A proposal of 'walking away' for non-vulnerable customers during normal working hours.

As mentioned above, we agree that DCP008D is closely aligned to the principles developed under REMA. However, we also note the concerns raised by some Suppliers that the funding of these services remains unclear and that they are yet to see any indicative charges. These concerns are compounded by the fact that the Distributor would be able to offer more than a standard credit meter, yet not need to have entered into a separate bi-lateral agreement for these value-added services.

We consider that it would be inappropriate to obligate Suppliers to accept an UMetS service, particularly where the costs of this service are unknown. The Supplier should have a choice whether the meter should be replaced by the Distributor or to arrange for their agent to carry out the work. Whilst we recognise that this may necessitate a second visit, the Supplier may realise significant cost savings which could be shared with the consumer either indirectly through tariffs or directly through compensation for loss of supply etc. More significantly, we recognise the proliferation of meter types that are available, particularly with the roll out of smart metering. We consider that Suppliers should be able to ensure that any meter replacement is done on a like-for-like basis, thereby negating the cost of having to replace the meter twice. This may be of particular value in hard-to-access cases, or where a pre-payment meter has been installed to recover a debt. On the whole we consider that DCP008D would have a negative impact on competition, particularly with respect to the Distributors' ability to provide non-standard metering outside of a formal contract and at their own discretion.

Applicable objective (c) the efficient discharge by the licensee of the obligations imposed upon it by this licence

Given the removal from the Distribution licence of the obligation to provide new and replacement meters and metering services, we do not consider that any of the proposed variations will better facilitate the efficient discharge of current licence obligations.

Applicable objective (d) the promotion of efficiency in the implementation and administration of the DCUSA arrangements

Each of the proposed variations would introduce new obligations into the DCUSA and we note the concerns of respondents who questioned whether or not UMetS is appropriately within scope of the DCUSA. Whilst we consider the permitted scope of the DCUSA to be sufficiently broad such that it could appropriately govern suitable metering arrangements, they do not *currently* form part of the DCUSA arrangements, therefore none of the variations could be considered to better facilitate the achievement of this applicable objective.

Conclusion

As we do not consider that any of the variations would better facilitate the achievement of the applicable objectives of the DCUSA than the current baseline we have not sought to rank them in any particular order of preference. However, this in no way precludes the ongoing development of UMetS. We anticipate that the industry will provide an appropriate response to these issues, particularly given the commercial freedom that is now available to all parties.

We do however welcome ongoing feedback from industry parties regarding UMetS, particularly if evidence comes to light of adverse impacts on consumers from the arrangements, and would not rule out taking further action if we feel that consumers' interests are not being protected.

For the reasons set out above, we have decided not to direct the implementation of any of the variations of DCP008 '*Provision of Urgent Metering Service*'.



Emma Kelso

Head of GB Markets

Signed on behalf of the Authority and authorised for that purpose.

Appendix A – DCUSA 008 Options

| Initiated by phone or site visit | Working hours | DCP008A | DCP008B | DCP008C | DCP008D |
|-------------------------------------------------------------|----------------|-------------------|----------|-------------------|-------------------|
| Telephone call – metering fault identified – not vulnerable | 1 In hours | Refer to Supplier | Optional | Refer to Supplier | Refer to Supplier |
| | 2 Out of hours | Refer to Supplier | Optional | UMETS applies | Refer to Supplier |
| Telephone call – Metering Fault - vulnerable | 3 In hours | Refer to Supplier | Optional | UMETS applies | Refer to Supplier |
| | 4 Out of hours | UMETS applies | Optional | UMETS applies | Refer to Supplier |
| Site visit – Metering Fault – not vulnerable | 5 In hours | Refer to Supplier | Optional | Refer to Supplier | UMETS applies |
| | 6 Out of hours | UMETS applies | Optional | UMETS applies | UMETS applies |
| Site visit – Metering Fault – vulnerable | 7 In hours | UMETS applies | Optional | UMETS applies | UMETS applies |
| | 8 Out of hours | UMETS applies | Optional | UMETS applies | UMETS applies |

| Description | DCP008A | DCP008B | DCP008C | DCP008D |
|------------------------------------------|---------|-------------------------------------|---------|-------------------------------------|
| Single-phase single rate meter | Yes | Optional – Distributor to determine | Yes | Yes |
| Like for like meter change | No | Optional – Distributor to determine | No | Optional – Distributor to determine |
| Add emergency credit | No | Optional – Distributor to determine | No | Optional – Distributor to determine |
| Ancillary services | No | Optional – Distributor to determine | No | Optional – Distributor to determine |
| Send data-flows for all work carried out | Yes | Yes | Yes | Yes |
| Distributor obligation to provide UMetS | Yes | No | Yes | Yes |
| Supplier obligation to take UMetS | Yes | No | No | Yes |