



Making a positive difference
for energy consumers

National Grid Gas Plc (NTS), Gas
Distribution Network Operators
and Other Interested Parties

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Dear stakeholders,

Decision on modifications to the Special Conditions and Standard Special Conditions (SSCs) of the Gas Transporter licence held by National Grid Gas Plc and the Gas Distribution Network Operators (GDNs).

This document and associated schedules set out our¹ decision further to our statutory consultation issued on 7 November 2019 (our 'November Consultation')² on proposed modifications to the gas transporter licences held by National Grid Gas Plc ('NGG') in respect of the National Transmission System ('NTS'), Cadent Gas Limited, Northern Gas Networks Limited, Scotland Gas Networks Plc, Southern Gas Networks Plc, and Wales & West Utilities Limited ('the Licensees').

This letter sets out our decision and the rationale, summarises the background to our decision, the responses received and our views on those responses, and next steps. Schedule 1 of this letter contains a summary of modifications to the relevant licence conditions. Alongside this letter we have published a notice of the modifications.³

Background to our decision

Gas Distribution Network Operators (GDNs) historically have been obliged to provide traditional gas meters and metering services when requested to do so by a gas supplier, at

¹ The terms "the Authority", "we" and "us" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work.

² [November Consultation - Statutory consultation on proposed modifications](#)

³ <https://www.ofgem.gov.uk/publications-and-updates/decision-modifications-special-conditions-and-standard-special-conditions-gas-transporter-licence-held-national-grid-gas-plc-and-gas-distribution-network-operators>

a tariff not exceeding a regulated rate. This obligation is known as the meter provider of last resort (MPOLR). NGG has a further obligation as the Backstop Meter Provider of Last Resort (BPOLR), which requires it to comply with any reasonable request by a relevant GDN to provide, install and maintain a traditional domestic gas meter. This allows a GDN who may not have significant metering capability to use the backstop provider who may benefit from economies of scale. These obligations were in place to support the provision of metering services during the transition to smart meters and ensure appropriate obligations are in place on network companies in respect of the provision and pricing of metering services.

On 2 April 2019, the Secretary of State issued a direction to all holders of an electricity or gas supply licence. This directed and specified the activation of the New and Replacement Obligation (NRO) in the Gas and Electricity Supply Licences on 30 June 2019, which places an obligation on energy suppliers to take all reasonable steps to install a compliant smart meter (ie a SMETS2 meter) where a meter is replaced or where a meter is installed for the first time. The result is that some of the conditions from the Licensees' Gas Transporter Licences ceased to have effect in whole or in part, as they contained a mechanism which made the conditions non-operative as of the date specified in the above direction ('NRO sunset clause').⁴

Additionally, some of the relevant licence conditions contain a mechanism that will cease the conditions' effect on 31 December 2020 ('2020 sunset clause')⁵, which is the date the existing obligation on energy suppliers to take all reasonable steps to install smart meters expires.⁶

The purpose of our November Consultation on the proposed modifications was to reinstate conditions which had ceased to have effect and to extend the obligations to 2024 so a regulatory framework is in place and remains in effect while the smart meter rollout is still ongoing. Maintaining the BPOLR and MPOLR obligations would ensure a smooth transition to smart meters and ensure that customers requiring traditional meters during the transition to smart metering are protected.

Responses to consultation

We received four responses to our November consultation. All responses were non-confidential and are published on our website.⁷

⁴ Conditions which contain an NRO sunset clause are: Special Conditions 11H and 4D; SSC B8, SSC D17.

⁵ Conditions which contain a 2020 sunset clause are Special Conditions 11H and 4D; SSC B7, SSC D17, SSC D18.

⁶ Paragraph 33.1 of Standard Condition 33 of the Gas Supply Licence

⁷ <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-modifications-special-conditions-and-standard-special-conditions-gas-transporter-licence-held-national-grid-gas-plc-and-gas-distribution-network-operators>

The majority of respondents were supportive of the proposed modifications to reinstate and extend the relevant licence conditions.

Comments regarding proposed modifications to reinstate expired conditions

There was no opposition to reinstating the expired conditions in NGG's Licence. Two respondents were in favour of reinstating the conditions relating to the GDNs' MPOLR obligations. One respondent disagreed, considering that GDNs' obligations to provide last resort meters on request is no longer required.

We consider the expiry of these obligations was premature. Smart meter penetration was not as high as originally expected by the time the NRO came into effect and we consider that the current lack of the MPOLR obligations is detrimental to those consumers who may be unable to get a smart meter installed at present. The NRO places an obligation upon suppliers to take all reasonable steps to ensure any new or replacement meter is a compliant smart meter; however, there will be instances where a supplier would be unable to install a smart meter despite having taken all reasonable steps. Reinstating the associated tariff caps ensures the previous protections remain in place.

The retention of the BMPOLR obligation allows for GDNs to use the backstop provider, and allows market participants to transfer their assets for the purpose of maintenance as traditional metering becomes a more marginal activity. As the proposed modifications do not make material changes to the obligations, those GDNs who do not currently provide meters would not be required to change their processes when the relevant conditions are reinstated.

Comments regarding proposed modifications to extend the conditions to 2024

Some respondents welcomed the clarity that these modifications provided regarding the continuation of the obligations past 2020, and were supportive of Ofgem's proposals to continue the obligations to provide appropriate protection to consumers.

One respondent commented that if the smart meter rollout proceeds faster than expected then the need for back stop support from the Licensees will diminish. We recognise that this may materialise. Should there be a need to amend the obligations in line with the status of the smart meter rollout, we view that retaining the ability for the Authority to issue a direction in relation to the conditions' effect will provide the flexibility to react to a changing market as necessary. For the avoidance of doubt, we consider that the provisions

“subject to any direction given by the Authority” and “unless otherwise directed by the Authority” have the same effect.

Comments regarding the level of the tariff caps on metering activities

Respondents raised concerns that costs may rise, particularly regarding increasing costs of maintaining traditional prepayment meters, and that traditional meters may become more difficult to procure as demand falls; in which case the level of the tariff caps may become prohibitive.

As we stated in our November consultation, while we are not looking at the methodology for calculating the tariff caps at the current time, we do recognise that in future it may become necessary and we may return to this at a later date.

Comments on broader policy considerations

Respondents raised concerns that some of the obligations may no longer be needed due to other developments:

- The tariff cap for provision and maintenance of a credit/prepayment meter should no longer be required due to the Standard Variable Tariff (SVT) and default tariff cap providing protection to consumers; and
- The tariff cap for the daily meter read service should no longer be required (or should be reassessed), for example due to reclassification or diminishing numbers of sites which require this service.

With regards to the credit/prepayment tariff cap, given that traditional meters may still need to be installed where it is not possible to install a smart meter and that there are currently more traditional meters in the market than initially expected - all of which will need to be maintained - we consider that installation and maintenance activities will need to be provided at an efficient cost and therefore the retention of a tariff cap for these services is appropriate. Whilst the domestic default tariff price cap does provide protection to consumers on SVT and default tariffs, suppliers are still able to pass metering costs through to all consumers. We therefore view that retaining these tariff caps for metering activities is beneficial in providing protection to consumers.

With regards to the appropriateness of the tariff cap on the daily meter read service, we note that this tariff cap is currently still in effect and is due to ‘turn off’ on 31 December 2020. Removing this cap through these modifications was not within the scope of the statutory consultation; however, we remain open to addressing this in future should it become apparent that further intervention is necessary, particularly with regards to the

Licensees' ability to procure contracts for this service. Again, we consider that the mechanism to provide alternative direction within the relevant conditions allows for the Authority to react flexibly to a changing landscape.

One respondent felt that the obligation for a GDN to refer a request for a traditional meter to NGG should be removed, and that a supplier should refer a request directly to NGG where the transporter has issued a notice making use of the NGG backstop service. As we plan to continue the MPOLR obligations, we do not view this as a necessary change at this stage, and view that retaining the obligation does not add complexity to suppliers' current arrangements for requesting a traditional meter.

Additional comments

Some respondents raised concerns that Ofgem had issued a statutory consultation with no prior engagement. In our November Consultation we proposed to maintain existing processes as opposed to making changes to the underlying policy. Additionally, as some conditions are currently not in effect, it was necessary to correct the expiry of the relevant conditions as soon as possible in order to ensure appropriate protections and obligations remain in place.

Some respondents suggested referring directly to 31 December 2024 when specifying the end date of the licence conditions, rather than a referral to the Gas Supply Licence. We have made changes to our proposed licence drafting to reflect these comments.

One respondent noted that there are existing errors in the Licence, for example the reference in Standard Special Condition D17 refers to gas supply licence condition 33.6 where it should be referring to 33.7. The respondent stated it is unclear whether these conditions have in fact ceased to have effect due to these previous errors in licence drafting. We view that these modifications remove any ambiguity about the operation of the licence conditions and clearly show which conditions should continue to have effect.

Conclusions

We note that these licence obligations are not intended to be enduring, and are an interim measure whilst the transition to smart metering is ongoing. We view that reinstating the recently expired licence conditions and maintaining the current obligations will enable Licensees to take a consistent approach to meeting these obligations. The Licensees, suppliers, and other market participants would not need to change existing processes as a result of the modifications.

We are of the view that these modifications achieve the original policy intent of protecting consumers in the transition to smart meters and provide a smooth and effective transition. As previously noted, we may revisit these conditions in due course if we become aware of circumstances which necessitate further intervention or assessment.

Our Decision

We have considered the responses to the consultation in light of our principle objective and statutory duties, and have decided to maintain our minded-to position to make the proposed modifications to the relevant licence conditions. We have also made additional minor modifications as raised by consultation responses and one typographical correction, which are outlined below.

Changes to the proposed licence drafting since the statutory consultation

The changes are as follows:

- Replaced any instance of “[...] this condition shall cease to have effect on the date which is four years after the date specified in condition 33.1 of the standard conditions of the gas supply licence (the date by which the duty to roll out a smart metering system must be fulfilled).” with “[...] this condition shall cease to have effect on 31 December 2024.” These changes have been made in Standard Special Conditions B7, B8, D17 and D18, and Special Conditions 11H and 4D.
- Corrected one typographical error in paragraph 3 of Special Condition 4D.

The changes are highlighted in Schedule 1 in the accompanying notice of modifications.⁸

Next Steps

These licence modifications will take effect from 13 February 2020. If you have any questions regarding this document, the accompanying notice, or the associated Schedules please contact Holly Jackson at smartmetering@ofgem.gov.uk.

Yours faithfully,

Jacqui Russell

Head of Metering & Market Operations
Duly authorised on behalf of the
Gas and Electricity Markets Authority

⁸ <https://www.ofgem.gov.uk/publications-and-updates/decision-modifications-special-conditions-and-standard-special-conditions-gas-transporter-licence-held-national-grid-gas-plc-and-gas-distribution-network-operators>

Schedule 1 – Summary of Modifications to relevant Licence Conditions

The below summary provides an outline of the modifications to the Licence conditions. Please see the accompanying Notice for the full licence drafting.

1. Standard Special Conditions applicable to all NTS licensees: Part B:

(i) SSC B7 (Provision of Meters)

Reinstating this condition and extending its end date ensures NGG continues to be required to comply with any reasonable request by a relevant gas transporter to provide and install a traditional domestic gas meter, keep appropriate record of any disconnected meter and keep disconnected meters in safe custody in matters relating to suspected theft of gas, until end 2024 unless otherwise directed. It subsequently ensures that the obligations set out in SSC B8 and Special Condition 11H apply.

(ii) SSC B8 (Provision of Terms)

Reinstating this condition and extending its end date ensures NGG continues to be required to provide terms and statements of charges relating to the provision of meters and metering services, and to submit these statements annually to the Authority for approval until end 2024 unless otherwise directed.

2. Special conditions to National Grid Gas Plc's (NTS) Gas Transporter Licence:

(i) Special Condition 11H (Restriction of prices in respect of Tariff Capped Metering Activities)

Reinstating part of this condition and extending its end date will ensure that a Tariff cap remains in place on certain metering activities by NGG until end 2024 unless otherwise directed.

3. Standard Special Conditions applicable to all DN licensees: Part D:

(i) SSC D17 (Provision and Return of Meters)

Reinstating paragraphs 1, 1A and 2 of this condition and extending its end date ensures each GDN listed above continues to be required to comply with any reasonable request by a supplier to provide and install a traditional domestic gas meter or to refer such a request to NGG as the BMPOLR to fulfil, to keep appropriate record of any disconnected meter, and keep disconnected meters in safe custody in matters relating to suspected theft of gas. It also subsequently ensures the GDNs are required to provide terms and statements of charges relating to their provision of meters and metering services and to submit these statements annually to the Authority for

approval, as set out in Standard Special Condition D18, until end 2024 unless otherwise directed.

(ii) SSC D18 (Provision of Metering and Meter Reading Services)

Extending the end date of this condition ensures GDNs are required to provide terms and statements of charges relating to their provision of meters and metering services and to submit these statements annually to the Authority for approval until end 2024, unless otherwise directed.

4. Special conditions applicable to the licensee (DN): Part E:

(i) Special Condition 4D (Restriction of prices in respect of Tariff Capped Metering Activities)

Reinstating part of this condition and extending its end date will ensure that a Tariff cap remains in place on certain metering activities by the GDNs until end 2024 unless otherwise directed.