



Making a positive difference  
for energy consumers

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

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Date: 7 November 2019

Dear Stakeholders,

**Statutory consultation on proposed 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).**

The Gas and Electricity Markets Authority ('the Authority')<sup>1</sup>, proposes to modify the Gas Transporter Licence ('Licence') 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') pursuant to section 23 of the Gas Act 1986.

Alongside this letter, we have published a notice ('Notice') which details the proposed licence modifications.<sup>2</sup>

**Background**

Gas Distribution Network Operators (GDNs) currently have an obligation to provide traditional gas meters and metering services when requested to do so by a gas supplier, at a tariff not exceeding a regulated rate. This obligation is known as the meter provider of last resort (MPOLR). The regulated rate sets out a maximum rate for installation and

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<sup>1</sup> The terms "the Authority", "we" and "us" are used interchangeably in this document.

<sup>2</sup> [Notice of statutory consultation on proposed modifications](#)

maintenance of Prepayment Meters and Domestic Credit metering. NGG has a further obligation as the Backstop Meter Provider of Last Resort (BMPOLR), 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 are in place to improve 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, in accordance with his powers under paragraph 33.9 of Standard Condition 33 (The duty in relation to replacement meters and new connections) of the Gas Supply Licence, issued a direction<sup>3</sup> to all holders of an electricity supply licence or gas supply licence. This directed and specified the activation of the New and Replacement Obligation (NRO) in the Gas Supply Licence 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 we are proposing to modify from the Licensees' Gas Transporter Licence have now 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').<sup>4</sup>

Additionally, some of the licence conditions we are proposing to modify contain a mechanism that will cease the conditions' effect on 31 December 2020 ('2020 sunset clause')<sup>5</sup>, which is the date the existing obligation on energy suppliers to take all reasonable steps to install smart meters expires.<sup>6</sup> The proposed modifications (as detailed below in the 'Summary of Proposed Modifications', and the accompanying Notice) would reinstate Licence Conditions regarding the provision of traditional meters and related metering services which have ceased to have effect and extend their operation.

At the time of drafting these Licence Conditions, smart meters were expected to have higher penetration in the market by the date the NRO was activated; therefore, the provision of traditional meters upon request was not expected to be required from the Licensees past this date as suppliers would take on the primary obligation for ensuring that new and replacement meters are smart meters. As circumstances have evolved since the original Licence drafting - there are currently more traditional meters in the market than originally expected and we are aware that at present it may not always be possible to

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<sup>3</sup> [Government Response to January 2019 Consultation on the New and Replacement Obligation \(NRO\) Activation Date](#)

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

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

<sup>6</sup> Paragraph 33.1 of Standard Condition 33 of the Gas Supply Licence.

install a smart meter in all cases - the obligations placed upon the Licensees by these conditions will need to continue. The proposed modifications would restore the current arrangements. These conditions also regard ongoing services relating to these traditional meters, including the requirement that certain metering activities are subject to a Tariff Cap, which we would like to remain in place to provide appropriate protections for consumers throughout the transition to smart metering.

We acknowledged in our June 2019 open letter<sup>7</sup> that there will be instances where suppliers or their representatives (including network companies in the case of an emergency metering situation) may not be able to offer or install a SMETS2 meter, despite having taken all reasonable steps to do so, and will judge that it is in the best interests of the customer to proceed with a traditional, SMETS1 or Advanced meter installation. We propose to retain the current MPOLR obligation while the smart meter rollout is ongoing, given that the protections it affords continue to be relevant to consumers in the events of a traditional meter installation. We would note that energy suppliers and the Licensees should take their wider obligations into account when considering the installation of any traditional meter.

It was also originally expected that the vast majority of domestic meters would be smart meters by end 2020. However, as there will likely be more traditional meters in the market by end 2020 than expected and the smart meter rollout will need to continue past this date, we propose to extend the operation of these Licence Conditions by modifying the end date specified in the 2020 sunset clauses.

We propose that extending the sunset clauses to end 2024 should provide a suitable timeframe to ensure sufficient penetration of smart meters in the market such that these requirements upon the Licensees will no longer be needed; we would expect that most traditional meters and services provided by the Licensees will have been replaced by smart meters which energy suppliers are responsible for. We consider 2024 is suitable given available information such as the Government's 2019 smart meter rollout cost-benefit analysis<sup>8</sup>, the number of smart meters already installed and energy suppliers' plans for expected future installations, which is expected to result in smart meter installations post-2024 being limited to new buildings and end-of-service-life replacements. These modifications will maintain the original policy intent of continuing the operation of these conditions while the smart meter rollout duty upon energy suppliers is still in place and until traditional meters which are currently maintained by the Licensees have been replaced by smart meters.

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<sup>7</sup> [Smart meter rollout: Energy suppliers' progress and future plans – Open letter June 2019](#)

<sup>8</sup> [Government publication: Smart meter roll-out: cost-benefit analysis 2019](#)

Should it become apparent that end 2024 would no longer be suitable, we will consider in due course whether to use the proposed power in the suggested modified licence conditions and accordingly issue a direction to amend the proposed end date of the obligations upon the Licensees.

## **Summary of the proposed modifications**

The Licence Conditions we are proposing to modify and/or reinstate are listed below, with an explanation of the intent of our modifications:

### **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 this request to NGG to fulfil as the BMPOLR, 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.

Special Conditions 11H and 4D in NGG's and the GDNs Gas Transporter Licence respectively set out the tariff caps on certain metering activities and provide the methodology by which these caps are calculated. We may address the methodology for calculating these caps in due course.

### **Next Steps**

We propose that these Licence modifications are implemented by February 2020 so that they are in effect for the annual submission of the metering charges statements from NGG and the GDNs.

We invite comments or views on the proposed modifications to the above gas transporter licences as set out in the accompanying Notice. Please send all responses or questions to [smartmetering@ofgem.gov.uk](mailto:smartmetering@ofgem.gov.uk) by 5 December 2019.

We are not, at this stage, suggesting any changes to the methodology for calculating the tariff caps. However, we may choose to return to this question at a later date.

We normally publish all responses on our website. However, if you do not wish your response to be made public please clearly mark it as not for publication. We prefer to receive responses in an electronic form so that they can be placed easily on our website. If we decide to make the proposed modifications they will take effect not less than 56 days after the decision is published.

**Jacqui Russell**

**Head of Metering & Market Operations**

**Duly authorised on behalf of the**

**Gas and Electricity Markets Authority**