

February 2000

**Utilities Bill**

**Standard Licence Conditions**

**Volume 1 Consultation Paper**

# 1.Introduction

## *1.1 Background*

The Government has introduced legislation to modernise the framework for utility regulation. The Utilities Bill was published on 21 January 2000.

The proposals in the Bill have a significant impact on both gas and electricity licences. The Bill will require distributors of electricity to be authorised by licence or exemption. There will therefore be a new licence to distribute electricity. The public electricity supply (PES) and second tier electricity supply licences will be brought together into a single type of supply licence and the concept of PES tariff supply will be removed and replaced by contractual supply. The Bill also makes provision for amendments to electricity licences to implement the New Electricity Trading Arrangements.

In addition, the Bill makes provision for standard licence conditions in electricity, reflecting existing provisions in the Gas Act 1986. These standard conditions will be determined and published by the Secretary of State. Thereafter, it will be for the Gas and Electricity Markets Authority (the combined regulatory office for gas and electricity) to propose modifications. Ofgem is providing advice to Government on the standard conditions it might be appropriate to include in each type of electricity licence and the amendments necessary to the existing standard conditions of gas licences. However, the decision to determine the standard conditions rests with the Secretary of State.

Ofgem consulted with the industry, consumer groups and other interested parties in November on its initial proposals on standard licence conditions. A consultation paper "Initial Proposals on Standard Licence Conditions" was published on 23 November 1999. Initial draft standard conditions for electricity supply, distribution, generation, and transmission and gas supply, shipping and transportation were made available on Ofgem's website during November and December 1999. A series of meetings were held with licensees in December to discuss the initial licence proposals.

Ofgem has now considered the comments made in those meetings and the written comments received in response to the November consultation paper and the standard

licence conditions. Amendments, where appropriate, have been made to the proposed standard conditions. A summary of responses will be published on Ofgem's website [www.ofgem.gov.uk](http://www.ofgem.gov.uk) shortly.

## **1.2 This Document**

This document sets out Ofgem's policy proposals on the necessary changes to all types of electricity and gas licences. In proposing these changes a number of assumptions have had to be made in the drafting of the relevant licence conditions. This is because some Bill clauses and policy intentions in respect of associated secondary legislation have yet to be published. Further changes may also be needed as a result of amendments to the Bill during the Parliamentary process and as a result of related Ofgem consultation processes on amendments to licences arising from the Bill and from continuing regulatory development.

## **1.3 Structure of Document**

The chapters in this document are structured in the following way:

Chapter 2 considers the structure of licences

Chapter 3 discusses general policy issues in respect of the licences

Chapters 4 to 7 describe specific policy points in relation to each licence type

Chapter 8 sets out the next steps

Volumes 2 to 8, which accompany this document, set out the proposed draft standard conditions for each licence type:

Electricity Supply	Volume 2
Electricity Distribution	Volume 3
Electricity Transmission	Volume 4
Electricity Generation	Volume 5
Gas Supply	Volume 6
Gas Shipping	Volume 7
Gas Transportation	Volume 8

Copies of all eight volumes are available on Ofgem's website: [www.ofgem.gov.uk](http://www.ofgem.gov.uk) and hard copies are obtainable from Ofgem. The volumes containing the licences will be available on the website immediately. Highlight and strike through versions showing amendments

made since the November 1999 consultation will also be available on Ofgem's website shortly.

#### **1.4 Comments Invited**

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Views on the proposals in this paper, and the detail of the draft standard licence conditions, are invited by **Wednesday 31 May 2000**.

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## 2. Licence Structure

### *2.1 Existing Licensing Arrangements*

The existing gas and electricity legislation prohibits the carrying on of certain specified activities unless authorised either by licence or exemption. The prohibited activities are the supply, shipping and transportation of gas and the generation, supply and transmission of electricity. Consequently the relevant Acts provide for licences and exemptions in respect of each of these separate activities. The power to grant gas licences rests with the regulator whilst the power to grant electricity licences can be exercised either by the Secretary of State or by the regulator acting under a general authority given by the Secretary of State. The Bill provides for the removal of the Secretary of State's powers to grant electricity licences. This will bring the Electricity Act provisions in line with those in the Gas Act.

For gas transportation, shipping and supply and for electricity generation and transmission there is only one type of licence that can be granted. However, existing legislation for electricity supply licences provides for there to be two types of supply licence; one granted to public electricity suppliers in respect of their authorised areas (known as a public electricity supply (PES) licence) and the other which is granted to any other person, including a PES wishing to supply outside its authorised area, who wishes to supply electricity (known as a second tier supply licence). This includes fewer obligations. A PES licence is effectively that which was granted upon vesting to one of the successor companies corresponding with the fourteen Area Electricity Boards which existed before privatisation and related to a specific geographical area (authorised area). It includes a number of obligations which were required because of the monopoly position of the PES in electricity distribution and supply at the time of vesting.

### *2.2 Proposed Arrangements*

Government has made clear that the licensing regimes in gas and electricity should be aligned as far as possible in recognition of the growing convergence of the gas and electricity markets and the increasing integration of firms operating in them. In electricity, to facilitate further competition and transparency, there will be a new licence to distribute

electricity and a single type of supply licence to replace the existing public electricity supply and second tier supply licences.

### ***2.2.1 Separation of PES Supply and Distribution***

The separation of electricity supply from distribution is a key policy objective. Legislation will provide for a new prohibition on the activity of distribution without a licence or exemption. It will also provide a bar on the same legal entity holding both a supply and a distribution licence.

Ofgem has considered what obligations are required in the new distribution licence and electricity supply licence. Establishing standard conditions for electricity licences is not simply a matter of transposing existing conditions of licences into a standard form. Ofgem has already given thought to, and consulted on, the conditions it considers appropriate to distribution and supply. Volumes 2 and 3 set out revised draft standard conditions for these licences. Ofgem has separately undertaken a consultation on licence conditions requiring operational, managerial and information separation of the distribution business.

Ofgem has also considered whether there is a need to have geographic specific licences. At present in electricity there are distinct licences for England and Wales and for Scotland. These were originally put in place to reflect the structure of the industry at vesting. In addition, geographic specific licences are presently also granted to PESs in respect of their authorised areas. Ofgem remains of the view that retaining separate licences for different parts of the country is unnecessary. In practice most companies operate on a Great Britain wide basis and most conditions apply across Great Britain. It therefore seems sensible to have Great Britain wide licence structures. Licences will, however, in some cases such as that of the successors of the PESs, need to provide for some regulatory requirements only having effect by reference to a geographic area or to dominance in a particular market. It will of course be open to companies to seek licences with a restricted geographic scope and licences will provide for relevant obligations such as those relating to trading arrangements to be applied depending on where the licensee is operating.

While many of the conditions in the new distribution and supply licences will be similar to existing PES conditions, there are a number of important changes. These are set out in the

following chapters. In reallocating PES obligations to the new supply and distribution businesses, Ofgem has sought to ensure that there is no scope for confusion as to respective responsibilities.

### **2.3      *Standard Licence Conditions***

The Bill provides for standard licence conditions in electricity reflecting the present arrangements in gas. Ofgem has considered what obligations should become standard conditions which can be modified by majority consent in each type of licence, as opposed to special conditions in individual licences where the agreement of the individual licensee or reference to the Competition Commission is required before a change can be made. Ofgem's general approach is that all conditions appropriate for all licensees of a particular type should become standard conditions. Special conditions are likely only to be necessary for some licensees to provide further regulatory protection or to promote competition. Special conditions will include price controls.

There will be a single set of standard conditions for each type of licence. These standard conditions will be divided into groups. Not all groups of standard conditions will necessarily apply to all licensees. The licences are structured around the key activities they govern by means of grouping together all of the standard conditions that relate to these key activities. Where appropriate therefore, the draft licences group together standard conditions with respect to the industrial and commercial sector, designated customer sector, and obligations falling on the former public electricity suppliers.

On granting a licence it is intended that the Authority will have the power to issue a direction applying particular groups of standard conditions to each licensee. So, for example, an electricity supplier intending to supply only in the industrial and commercial market would not have the group of standard conditions relating to designated customers applied. The Authority will also be able to reverse any such application/disapplication with the licence holder's consent, subject to being content that the licence holder satisfies the relevant necessary criteria. For instance, if a licensee wants to supply designated customers, he must notify the Authority in advance so that the relevant group of standard conditions can be applied. This would also give the licensee time to produce codes of

practice and other necessary documentation. It is intended that this power will generally be limited to disapplying or reapplying groups of standard conditions rather than individual conditions within these groups. This power will be given effect through a new standard licence condition enabling the Authority to issue such a direction.

#### **2.4 *Licence Modification***

At present, changes to electricity licence conditions are made with the consent of the individual licensees, or, where consent is not forthcoming, by reference to the Competition Commission. In gas, however, standard licence conditions may be modified collectively where a sufficient percentage of the relevant licensees consent. As previously indicated, the Government has decided to extend the concept of standard licence conditions to electricity. It also intends that there should be the same mechanism for collective licence modification in both gas and electricity. However, this mechanism will not be the same as that in the existing gas legislation which requires the regulator to secure the active consent of 90 percent by number and volume of gas transported, shipped or supplied by the affected licence holders.

The Government has indicated its view on how collective modification of standard licence conditions should operate in future. Under its proposals, only those licensees who object to a proposal made by the Authority and make a representation to the Authority will be deemed to have voted against it. The Authority, when determining whether the necessary level of consent has been achieved, will count only those objections by licence holders in whose licences the relevant conditions are operative. Blocking minority thresholds will be established by statutory instrument.

#### **2.5 *Special Licence Conditions***

As explained above, electricity licences will mainly consist, as gas licences already do, of standard conditions. However, not all licensees will have exactly the same obligations. As well as determining which groups of standard licence conditions should be applied under the licence, the Authority will identify some obligations that will be appropriate only to individual licensees. These non-standard obligations will take the form of special conditions. In electricity it is envisaged that some supply and distribution licensees,

particularly those that evolve from the present PESs, will require additional obligations in the form of special conditions. For example, for ex-PES supply and distribution licensees there will be a need for special licence conditions relating to price controls.

Special conditions may also be appropriate in certain circumstances for other distributors. For example some distributors may wish to have the powers under Schedules 3 and 4 of the Electricity Act 1989 afforded to them. These schedules enable the Authority to confer rights relating to street works and compulsory acquisition of land. This would be exercised by the Authority through special licence conditions for such individuals.

Although transmission licences will have some standard conditions, given that, at least initially, there will only be one transmission licensee in England and Wales and two transmission licensees in Scotland operating with different arrangements, supplementary standard conditions for each area will be necessary but there will also be a need for some special conditions.

## 3. General Policy Issues

### 3.1 *Customer Protection*

Customer protection is a priority for Ofgem. The Bill gives the new Authority a principal objective in carrying out its functions to protect the interests of consumers in relation to the supply of gas and electricity, wherever appropriate by promoting effective competition. In developing standard conditions for licences Ofgem has sought to ensure that existing customer protection obligations are retained and, wherever appropriate and possible, enhanced. Existing licences include obligations affording additional regulatory protection to smaller gas and electricity customers.

In gas, further regulatory protection is afforded via legislation and licences to “domestic” customers using 73,200 kWh or less per year. In electricity, many regulatory functions focus on a category of customer known as “designated” customers. Designated customers comprise all domestic customers (that is, all customers at premises used wholly or mainly for domestic purposes regardless of consumption) and those business customers (with some exceptions) having consumption of 12,000 kWh or less per year. Both gas and electricity supply licences include detailed obligations relating to the terms of contract for these small customers.

In keeping with the general objective to align, wherever possible and practicable, the present gas and electricity provisions, the Government is proposing to focus the requirements of regulatory protection on a designated group of small customers. The Secretary of State will be given a power to define such customers using secondary legislation. Present assumptions are that the definition of designated customers for legislative purposes will include all domestic customers (that is, all customers at premises used wholly or mainly for domestic purposes) irrespective of consumption, plus some business customers as defined by reference to appropriate consumption limits. In electricity, suppliers to small chains of businesses which are party to multi site contracts are excluded from the definition of designated customers. A similar approach is adopted in gas licences. This seems an appropriate exclusion. However, these provisions may need to be

reviewed when the detail of the secondary legislation which will define designated customers is confirmed.

Some licensees may choose to supply only larger customers and licence conditions relating to designated customers will not therefore apply to them. However, it is recognised that customers' circumstances and consumption levels may change over time. For example, a business customer whose consumption was within the designated customer defined limit when he took out his supply contract may find that his consumption increases during the life of that contract. Existing electricity supply licences provide for these circumstances to ensure that a change in a customer's consumption does not automatically cause a supplier to be in breach of its licence. These provisions are expected to continue for electricity suppliers and to be introduced for gas suppliers as standard licence conditions.

The draft standard conditions of electricity supply licences set out in Volume 2 provide a range of customer protection obligations relating to designated customers, however defined by the Secretary of State. These include:

- a duty to supply such customers on request;
- a requirement to produce codes of practice on
  - the payment of bills and guidance for dealing with customers in difficulty,
  - the use of prepayment meters,
  - the provision of services for persons who are of pensionable age or disabled or chronically sick,
  - the provision of services for persons who are blind or deaf,
  - procedures with respect to site access,
  - the provision of guidance to customers on the efficient use of electricity; and
  - procedures for handling customer complaints;
- a requirement to consult the Consumer Council on the content of such codes and to seek approval from the Authority;
- a requirement to keep a record of and to report on the operation of the code of practice provisions and performance in relation to the provisions of electricity supply to customers;

- a duty to keep customers informed
  - of the amount of electricity consumed,
  - that the Consumer Council (or in some cases the Authority) can assist in resolving complaints,
  - of how the appropriate office of the Consumer Council or the Authority can be contacted;
- obligations relating to the terms of supply contracts and their termination including providing for payment of charges by a number of different methods and timescales;
- a duty to draw to the customer's attention the principal terms of the contract and to provide the customer with a copy of the full terms and conditions of the contract; and
- restrictions on the use of and size of security deposits.

Similar provisions are included in gas supply licences.

### ***3.1.1. Social Action Plan***

Ofgem has also consulted on proposals in relation to its Social Action Plan. "Social Action Plan: Enhancing Social Obligations – A Proposals Document", published in January 2000, made a number of proposals for improving the provision of services to disadvantaged customers. In particular it proposed revised licence obligations to establish a common regime for electricity and gas companies on social obligations including:

- payment methods;
- energy efficiency advice;
- services for vulnerable customers; and
- debt and disconnection.

Ofgem's overall aim is to enhance the present social obligations on suppliers by levelling up to best practice between the gas and electricity industries; providing a "dual fuel" regime if suppliers want one code of practice to cover both electricity and gas; and providing for more involvement of and consultation with the Consumer Council.

The licence proposals include new obligations on suppliers with regard to:

- service to prepayment meter customers, and the provision of frequent cash payment methods;
- the provision of certain services free of charge to domestic customers who are of pensionable age, disabled or chronically sick;
- the revision of arrangements for security deposits to give gas customers an improved rate of interest on deposits and the right to determination of disputes by the Authority; and
- the operation of telephone advice lines on energy efficiency by gas suppliers for their customers (mirroring those in electricity) and a requirement on electricity suppliers (mirroring those in gas) to ensure that staff giving energy efficiency advice are suitably qualified.

Ofgem is presently seeking the consent of licence holders to amend the relevant licence conditions. The draft standard conditions of gas and electricity supply, in the accompanying volumes, include the proposed amendments, but may be subject to change following completion of Ofgem's consultation process.

### ***3.1.2. Marketing condition***

The standard conditions of gas and electricity supply licences include a condition relating to the marketing activities of suppliers. The present marketing licence condition provides for it to cease to have effect on 31 March 2000 unless the Director concludes that the development of competition is such as to require the continuation of the condition.

Ofgem has recently consulted on extending this condition for a further two years. In addition Ofgem has proposed various enhancements to the existing condition. These are intended to provide further protection for customers from inappropriate sales techniques whilst enabling suppliers to actively market the new opportunities for customers brought about by the competitive gas and electricity markets.

For completeness the proposed extended and enhanced marketing condition on which Ofgem is presently consulting has been included in the standard conditions of gas and

electricity supply licences (volumes 2 and 6). It may, however, be subject to amendment following responses to Ofgem's January 2000 consultation ("Marketing Gas and Electricity – A Consultation Document").

### ***3.1.3. Debt***

Present gas and electricity supply licences include provisions enabling suppliers to prevent a customer changing their supplier if the customer is in debt. They also include provisions which allow the assignment of final account debt to the customer's new supplier.

Ofgem published a consultation paper "Customers in debt and their access to the competitive market" in December 1999. This set out Ofgem's proposals for the reform of arrangements for transfers of customers in debt. This is intended to remove barriers to competition, thus enabling customers to exercise choice of supplier more easily.

Ofgem has concluded that the present arrangement on treatment of debt does not effectively promote the interests of customers and the operation of a flexible, competitive market. It constrains customer choice, inhibits innovation, and limits the ability of low-income customers to enter the competitive market. Ofgem has therefore made proposals to remove a supplier's right to object to the transfer of a customer in debt.

In addition Ofgem has indicated that the existing debt assignment process has not worked well, and is regarded by many suppliers as costly, time consuming and ineffective. The accompanying standard conditions of gas and electricity supply licences do not therefore include obligations in respect of debt objections and debt assignment. However, consultation with the industry on these issues continues and, depending on the outcome of that consultation, further amendments to the standard licence conditions may be proposed.

### ***3.1.4. Price comparisons***

To further enhance customer protection Ofgem is also consulting on a new licence obligation for electricity and gas supply licences to make price comparisons easier for customers ("Comparing Electricity and Gas Prices – A Consultation Paper").

Ofgem's intention is to ensure that all customers can have access to good quality information to enable them to make informed decisions about the choice of supplier and prices being offered. Ofgem has therefore proposed a new licence obligation requiring gas and electricity suppliers to collectively produce a Pricing Indications Code to enable domestic customers to more readily identify the relative prices of suppliers.

The proposed new licence condition has been included in the accompanying volumes 2 and 6, standard conditions of gas and electricity supply licences, but may be subject to modification following responses to Ofgem's consultation.

### ***3.1.5. Standards of Performance***

The Bill makes provision for the Authority, after consultation, to set standards of performance in connection with the distribution and supply of electricity and the transportation and supply of gas. The Bill also provides for compensation to be paid where a licence fails to meet a prescribed standard. These matters are dealt with in regulations rather than standard licence conditions. However, the standard conditions of gas and electricity supply licences require suppliers to pass on to customers any relevant payment made by a distributor or transporter.

### ***3.1.6. Deemed Contracts and Last Resort Supply***

The Government has indicated its intention to include in the Bill provisions to allow a contract to be deemed to be in place between a customer and supplier where no contract exists, but the customer is taking a supply of electricity. This will mirror similar provisions in the Gas Act. The accompanying standard conditions of electricity supply licences therefore include similar provisions to those relating to deemed contracts presently contained in gas supply licences.

In addition licence conditions provide for the Authority to appoint a supplier of last resort where circumstances have arisen which would entitle the Authority to revoke the supply licence of another supplier. This is intended to ensure that customers continue to receive a supply in these circumstances and are clear as to who is responsible for supplying them. Again, these provisions in the standard conditions of electricity supply licences reflect those already in place in gas.

Licence conditions also provide for any appointed supplier of last resort to recover the costs associated with the taking on of last resort obligations from security arrangements established by all licensees and, where that proves insufficient, for the costs to be recovered via distribution charges to designated customers. A new licence condition in the standard electricity distribution licence provides the mechanism for such costs to be recovered. Similar provisions exist in the gas transportation licence.

### ***3.1.7. Liaison with the Gas and Electricity Consumer Council***

The Bill will establish a new independent consumer body to represent the interests of gas and electricity consumers. It will have significant new responsibilities and powers. At present the licences make various arrangements for licensees to liaise with the existing consumer bodies. All electricity supply licences oblige licensees who supply in the designated customer market to meet with the relevant Consumers' Committee on request. The PES licence provides that the licensee shall meet up to a maximum of six times a year, but at least once a year. The second tier supply licence provides that the licensee must meet, on request, at least once a year. Gas supply licences oblige licensees who supply domestic customers to provide the present Gas Consumers' Council with details of the arrangements that it will have in place for liaising with the Council.

In its earlier consultation on standard licence conditions, Ofgem asked for views on whether, given the enhanced status, powers, and wider role of the Council, the existing licence obligations in respect of the Council were necessary, and how best the relationship between the new Council and licensees could be managed. Ofgem has now considered the responses together with the provisions in the published Bill. It is obviously important that the Council can speak with authority to any licensee, but it does not appear necessary to use a licence condition to achieve this. An obligation has however been included requiring licensees to provide the Council with information in relation to the exercise of its functions. However, this is an area which Ofgem will keep under review.

### ***3.1.8 Safety and Security of Supply***

Ofgem considers it essential that customers have access to an enquiry service to report or obtain information about any matter or incident, connected with the supply of gas and

electricity, which causes or is likely to cause danger or require urgent attention or which affects the security, availability and quality of supply. Standard conditions of electricity distribution licences and gas transportation licences therefore include an obligation to establish and operate such an enquiry service which must be available at all times. In addition, gas and electricity supply licences require suppliers to keep their customers informed of how to contact such an enquiry service.

### ***3.2 New Electricity Trading Arrangements***

In July Ofgem published its proposals for the implementation of new electricity trading arrangements (NETA)<sup>1</sup>. The Ofgem/DTI conclusions document published in October 1999<sup>2</sup> confirmed that NETA would be introduced via changes to existing generation, transmission and supply (public electricity supply and second tier supply) licences and also, subsequently, to the new distribution and supply licences.

Ofgem issued a consultation document in December 1999<sup>3</sup> setting out detailed proposals for the changes required to existing licences as a consequence of NETA. Draft licence conditions are being prepared in the light of responses to that consultation (which ended on 24 January) and Ofgem will issue a further consultation document shortly. Further work on NETA related licence conditions will be required once responses to that consultation document have been received. It is anticipated that the NETA related draft standard licence conditions will closely reflect the proposed changes to existing licence conditions being taken forward under the NETA provisions of the Utilities Bill. In this document the references to NETA standard licence conditions therefore reflect the proposals set out in December 1999. The accompanying standard licence conditions do not at present contain the detailed drafting of the proposed NETA licence conditions. However, Ofgem has included an indication of the policy intention in relation to each condition.

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<sup>1</sup> The New Electricity Trading Arrangements, Ofgem, July 1999

<sup>2</sup> The New Electricity Trading Arrangements, Ofgem/DTI Conclusions Document, October 1999

<sup>3</sup> The New Electricity Trading Arrangements and related Transmission Issues: Proposals on Licence Changes: A Consultation Document, Ofgem, December 1999

### ***3.3 Separation of Distribution and Supply and Ring-Fencing***

The Bill provides for the separation of PES distribution and supply businesses and requires the new electricity distribution and supply licences to be held by separate legal entities. As discussed previously, Ofgem has therefore produced standard conditions for electricity distribution and supply licences.

In addition, Ofgem has consulted on the financial ring-fence provisions to be included in the standard licence conditions. The existing PES licences contain a number of provisions that are designed to help ensure that licensees can continue to finance their activities. These provisions are collectively referred to as the financial “ring-fence”. They are also designed to ensure that Ofgem has access to necessary information. At present these ring-fence conditions relate to both the distribution and supply businesses of PESs (and in some cases also to their generation businesses). With the separation of distribution and supply it is necessary to revise the existing ring-fence conditions and to consider what conditions might be appropriate to each type of licence in the future. The consultation paper “Electricity Distribution Licences: Initial Proposals on Standard Conditions for Financial Ring-Fencing” published in December 1999 set out Ofgem’s views. This indicated that Ofgem considered that financial ring-fencing licence conditions were most appropriate to operators of monopoly energy networks.

Modifications to give effect to ring-fence provisions were made last year to BG Transco plc’s transporter licence. Ofgem intends to propose similar modifications to the National Grid Company plc’s transmission licence during the course of this year. Both of the integrated Scottish electricity companies have given assurances in connection with merger clearances that they will accept standard ring-fencing restrictions in respect of their distribution and transmission businesses in Scotland.

Ofgem therefore proposed that the present PES ring-fence provisions would continue to apply to distribution businesses of the current PES licence holders subject to a number of modifications, whilst the licences for competitive activities such as supply should contain minimal ring-fence conditions.

The proposed ring-fence conditions include a restriction on the activities the licence holder is permitted to carry on. For example, a distribution licence holder is permitted to carry on only distribution business (as defined in standard condition 1 of the distribution licence) and other activities that are in the aggregate *de minimis* or to which the Authority has expressly consented. It is intended that the transmission licences of NGC and those to be issued in respect of the transmission systems presently operated by Scottish Power and Scottish Hydro-Electric should contain an analogous condition limiting permissible activities to transmission, *de minimis* activities, and activities consented to by the Authority. It is envisaged that, subject to European Commission derogations being obtained, consent would be given so as to permit distribution and transmission licences to be held by a single corporate entity, but such licence holders would not normally be permitted to carry on any other material activity.

For completeness the licence modifications for distribution proposed in Ofgem's December paper on ring-fencing have been included in the accompanying standard conditions. Similarly, the gas transportation licence has been modified to include ring-fencing conditions that align with those in distribution. These conditions may, however, be subject to modification in the light of the observations above and consultation responses.

### **3.4 Renewables**

The Utilities Bill provides for the Secretary of State to impose a new obligation on suppliers to supply a specified proportion of the electricity supplied to customers from renewable sources. Suppliers will have to demonstrate to Ofgem that they are complying with the obligations.

Given that suppliers will be under a statutory duty to meet the obligation, Ofgem does not envisage a need for licence conditions relating to compliance, but this may need to be revisited once detailed proposals are developed for the operation of the new scheme.

The provisions of the Electricity Act which require the Director General to keep under review and collect information on the generation of electricity, in particular CHP, remain unchanged. Information about CHP generators, many of which do not require a licence, is

held on a database which is available to the public. We therefore do not envisage any need to include new licence conditions relating to CHP.

### **3.5 Scotland**

Presently, different PES and electricity second tier licences are issued for England and Wales and Scotland. As previously indicated, the new distribution and supply licences will be Great Britain wide with a single set of standard conditions in each. The detail of the standard licence conditions to apply in Scotland will need to be revised or added to accommodate the horizontal and vertical integration exhibited by Scottish and Southern Energy and Scottish Power. In particular, changes will be necessary to the standard definitions of each separate business and related conditions, and new conditions to address access to and charges for interconnectors. Other changes will follow from a number of separate consultations Ofgem is or is proposing to undertake. The New Electricity Trading Arrangements (NETA) apply only to England and Wales. Different arrangements apply in Scotland. Ofgem is presently reviewing the Scottish Trading Arrangements with a view to making more detailed proposals shortly. Following consultation, these should be included in standard licence conditions.

In addition the Director intends to publish shortly his preliminary views on an application by Scottish Power for a reservation of capacity on the Anglo-Scottish interconnector. This might give rise to amendments to standard licence conditions.

A consultation paper is also proposed on the implementation of the EU Directive on electricity liberalisation. Transposing the provisions in the Directive into national law will require that modifications be made to the three transmission licences and potentially to the generation licences which are included in the accompanying volumes.

Additionally, several special conditions will be necessary to include in the licences for Scottish companies. These special conditions are necessary to provide adequate regulation of the industry in Scotland and arise because of the different arrangements that pertain in Scotland.

### **3.6 *Non-Discrimination***

Existing gas and electricity supply licences contain conditions relating to non-discrimination in supply. In brief, the relevant conditions provide that suppliers shall not show undue discrimination or undue preference in the supply market in which they have a dominant position. Although the principles behind the provisions in gas and electricity are generally the same, there are a number of differences of substance, of drafting and of application.

In gas, the provisions are included in a standard condition, which applies where the licensee is dominant in the market. The same principle is adopted in electricity, whereby the existing licence condition is included in all supply licences and applies to those licensees who the Authority has determined to be dominant. Both conditions recognise that the conditions should become less restrictive as competition is established.

Given the increasing convergence of the two industries, Ofgem considers it sensible to consult on its proposal to align the licence provisions governing non-discrimination. In considering alignment, Ofgem will also need to take account of the impact of future supply price regulation and, in particular, the widespread availability of “dual fuel” supply.

It is Ofgem’s intention that non-discrimination provisions will form part of the standard conditions. Therefore the existing relevant conditions, including those in gas, have been incorporated into the draft licences in their present form. However, Ofgem intends to consult on the alignment of these conditions in gas and electricity. These conditions may therefore be subject to some change following this consultation.

### **3.7 *Connection and Use of System Code***

In addition, Ofgem is proposing a new licence condition requiring NGC to establish a connection and use of system code (CUSC) setting out the commercial terms for connection to and use of the transmission system in England and Wales. It is intended that CUSC will replace the current arrangements for connection and use of system contained in the multilateral Master Connection and Use of System Agreement (MCUSA) and bilateral Supplemental Agreements. Ofgem is concerned that MCUSA’s current governance arrangements could have the potential to be an impediment to the development of the

electricity market. CUSC will be made binding on NGC and users by way of a framework agreement (such a structure being similar to that for the network code which governs connection and use of public gas transporters' networks in gas and that proposed for the Balancing and Settlement Code (BSC)).

It is proposed that NGC and other licensees (generators, suppliers and distributors) will be required to comply with CUSC and to sign a CUSC framework agreement. There are licence-exempt parties to MCUSA and it is for consideration whether there should be an exemption condition requiring adherence to CUSC. Ofgem has initially consulted on the principle of replacing MCUSA with CUSC and will be publishing detailed proposals shortly.

### ***3.8 Licence fees***

The Government has indicated its intention to abolish the present capping provision on gas licence fees. To reflect this and align the gas and electricity provisions, the condition on payment of fees has been amended in the standard conditions to provide for the recovery of the total costs of the Authority including costs recoverable on behalf of the Competition Commission and the new Gas and Electricity Consumer Council. The condition itself does not go into detail on the methodology to be used for calculating such fees. Instead this will be provided to licensees by separate notification, in the manner set out in the licence condition. In addition provision has been made to allow for licence fees to be requested and paid in instalments.

### ***3.9 Licence Revocation***

At present the revocation provisions of a licence are included as terms of the licence. This makes it extremely difficult to amend these provisions, as terms of licences can only be amended by revoking the licence and issuing a new one. Amendments to the revocation provisions are normally only required to reflect consequential changes in other legislation which impact the revocation provisions. Recent examples have included the introduction of the Competition Act. Revoking a licence and issuing a new one to reflect such changes would be unreasonably costly for both Ofgem and licensee. To alleviate some of these difficulties the revocation provisions have been incorporated as a standard licence condition. This approach has been adopted for all electricity and gas licences i.e.

generation, distribution, transmission, transportation, shipping and supply. However, the duration of the licence remains a term rather than a condition.

It is not Ofgem's intention to use the collective licence modification process to substantially alter the revocation provisions in such a way as to unreasonably revoke any particular licence. Ofgem recognises that licence holders can have financial arrangements which stipulate that they must hold licences and does not wish to jeopardise such arrangements. The electricity revocation provisions have, however, been modified to allow for more rapid revocation where a licensee is unable to pay its debts. This will enable Ofgem to take swift action to appoint a supplier of last resort and therefore to protect customers. The present revocation provisions in gas licences already include a similar provision. In an effort to align the revocation terms of gas and electricity licences the minimum sum in relation to the debt threshold for insolvency purposes has been set at £100, 000 in all licences.

### ***3.10 Industry Agreements and Codes***

The proposed changes to legislation and to licences will have a profound effect on a large number of industry agreements and codes. Agreements, such as the Master Registration Agreement, will need to be amended to reflect the proposed legislative and licence framework. The introduction of NETA will also necessitate changes to agreements and codes.

Each industry agreement has its own change control processes, which usually include determination of disputes or appeals by the regulator. However, to ensure that industry agreements, codes and other documents are changed to reflect the new legislative and licence framework, Ofgem has included a new standard licence obligation in all licences requiring licensees to co-operate in taking steps to procure the necessary changes to relevant industry agreements and codes.

More specific policy issues in relation to each licence type are set out in the following chapters.

## **4. Specific Licence Issues**

### **4.1 *Supply Licences***

This Chapter describes the initial changes Ofgem considers appropriate to provide for standard conditions in electricity and gas supply licences in the light of the Government's proposals for legislation.

### **4.2 *Electricity Supply Licences***

The present distinction between PES supply and second tier supply is to be removed. The geographically mutually exclusive "authorised area" structure presently facilitated by the existing PES licence will no longer be necessary or appropriate.

Given the present position of PES suppliers and the proposed continuation of price restraints for these suppliers it is likely to be appropriate to make some distinction, at least initially, between ex-PES suppliers and other suppliers. The draft licence is structured so as to facilitate and recognise such a distinction.

#### **4.2.1 *Application and Structure***

In line with the Government's proposals to adopt a more flexible approach to the licensing structure the standard conditions of the supply licence are grouped, as discussed above, to enable groups of conditions to be applied by the Authority as appropriate.

#### **4.2.2 *Social Obligations***

In line with the approach presently adopted relating to the scope of regulatory protection and the Government's proposals to focus on designated customers, certain standard licence conditions will only be operative for those suppliers who wish to supply in the designated customer market. Such suppliers will require a direction from the Authority enabling them to supply such customers and requiring them to comply with additional licence requirements in respect of these customers. With the exception of deemed contracts and last resort supply provisions all the conditions in this section of the licence are those that presently apply, in some shape or form, to electricity suppliers operating in the designated customer market.

Ofgem has already proposed, in advance of the new legislation, to introduce a new condition to second tier electricity supply licences to cover Energy Efficiency Standards from April 2000. The Government will be taking new powers within the Utilities Bill to set future Energy Efficiency Standards for gas and electricity suppliers. This is expected in due course to supersede the proposed new licence condition. Further amendments to licences may be required to effect the Government's proposals under the new Energy Efficiency Regulations.

#### ***4.2.3 Trading Activities***

In addition to standard conditions mentioned above, other standard conditions which are to be operative for all electricity supply licensees include the industry facing activities i.e. compliance with industry codes and agreements and other general settlement obligations which need to apply to all licensees. The majority of these conditions derive from the existing second tier supply licence.

#### ***4.2.4 Metering***

As a consequence of separating PES supply and distribution functions, present obligations on PESs in relation to the provision of metering and meter reading services will be divided between the new supply and distribution businesses, subject to certain amendments designed to recognise the development of competition in these areas. Chapter 5 provides more detail on the proposed distribution licence obligations.

The existing PES licence places an obligation on PESs to provide five separate metering and data services, namely, meter provision, meter operation, data retrieval, data processing and data aggregation. In providing these services, a PES must neither discriminate between any persons (including between itself and any other persons) nor restrict, distort or prevent competition in the supply of electricity. PESs are also required to undertake each of these services in the most efficient and economic manner practicable having regard to the alternatives available.

Following separation, it is envisaged that the ex-PES supply businesses, like all other suppliers, will be responsible for ensuring that all five metering and meter reading services

are provided to their customers. The principal issue for consideration in these proposals is the extent to which the ex-PES supply businesses should bear additional obligations that reflect their ownership and/or control of the incumbent meter reading businesses.

Ofgem considers that the dominant position inherited by PES meter reading businesses together with the existence of barriers to entry into meter reading require ex-PES supply businesses to have some additional obligations until competition in meter reading services becomes effective. The electricity supply licence therefore includes an obligation on ex-PES suppliers, where they provide meter reading services, not to discriminate in their provision and to undertake such services in the most efficient and economic manner practicable having regard to the alternatives available.

In addition the licence requires ex-PES suppliers to provide non-discriminatory access to a system supporting prepayment metering.

#### ***4.2.5 Provision of Services***

As mentioned earlier some standard conditions will only be necessary for a special category of electricity supplier. Initially it is considered that these obligations need only apply to ex-PES suppliers who, because of their position in the market, are able to provide certain services that cannot be provided by other suppliers. At present these conditions include an obligation for such suppliers to provide top up and standby supplies of electricity, prepayment meter services and exempt supply services. These provisions may be subject to change in light of other developments in the industry, for example, from the New Electricity Trading Arrangements.

### ***4.3 Gas Supply Licences***

The policy of alignment of electricity provisions with those already existing in gas will mean that, compared with the changes to electricity licences, there will be relatively few alterations in the gas supply licences. However the structure of the gas licences has been changed to adopt the flexible approach to licensing outlined in the Government's proposals. At present in gas the terms of the licence, rather than the standard conditions, determine whether the licensee is able to operate in the domestic market. To enable the

Authority to direct that certain standard licence conditions are to apply to the individual licensee (or are to be disapplied once they have been applied), it is necessary to split the standard conditions into sections in the same manner and order as has been done for electricity licences.

#### **4.3.1 Non-discrimination**

Again, as outlined above, there may be some further amendments to the standard conditions relating to non-discrimination following Ofgem's proposed consultation.

#### **4.3.2 Social Obligations**

Although the mechanism of deemed contracts is to be extended from gas to electricity, it will apply only to those defined (by Statutory Instrument) as 'designated customers'. Accordingly, the provisions of paragraph 8 of Schedule 2B of the Gas Act and the corresponding parts of Standard Condition 4, which permit an election to increase the ceiling for deemed gas contracts, have been deleted, as have the associated provisions for a supplier of last resort to customers outside the definition of "designated".

Standard Condition 6 (Special Customer Payment Claims) has also been deleted. Its purpose was to allow suppliers to recover the additional costs arising from their serving a disproportionate number of disadvantaged customers. The condition was not due to be invoked until the end of this year and no longer reflects market conditions. The Social Action Plan, on which Ofgem is currently consulting, will introduce new obligations on gas suppliers, to improve service to disadvantaged groups.

Also, changes needed to industry agreements, codes and other documents will be covered by a new licence condition as discussed in section 3.10.

#### **4.3.3 New Provisions**

There is a new licence condition requiring the establishment of complaints handling procedures to bring gas into line with electricity.

Provision has also been made requiring dominant suppliers to provide regulatory accounts for their supply business. The provision to require suppliers to provide advance notice of

price changes is included in the proposed standard conditions but will be applied by the Authority according to the market position of the supplier. This may be subject to the consultation on non-discrimination.

Mirroring the position in electricity, Ofgem considers it appropriate to require suppliers to print the 'M' number (meter point reference number) on customers' bills. This has been included in the licence in a similar way to that in electricity supply licences. This requires suppliers to print the Supply Number in accordance with a direction to be issued by the Authority.

## 5. Electricity Distribution Licences

The Bill will provide for a new prohibition on electricity distribution. This will require companies engaged in the distribution of electricity to be authorised by licence or exemption. This Chapter considers the standard conditions that are to be included within a distribution licence. These provisions relate mainly to the safety and security of supply and the effective operation of the distribution network.

### ***5.1 Application and Structure***

There will only be one basic type of distribution licence. However, the DTI propose to issue a consultation document on distribution licence exemptions shortly. The eventual decisions on these exemptions will clearly have a significant effect on the scope of the licensed sector in distribution and may therefore impact on the detail set out in the following paragraphs.

The concept of groups of standard conditions in the licence, as explained in Chapter 2, will help to facilitate any necessary distinction that may need to be made between the present PES distributors (ex-PESs) and other licensed distributors. Although it is proposed that all distribution licences contain the same groups of standard conditions, ex-PES distributors will (given their position in the market and the nature of their present licence obligations) be subject to an additional section of licence conditions that other distribution licence holders will not. The additional section applicable to ex-PESs initially will be switched on by means of a direction from the Authority.

It is also envisaged that there will be a need for special additional conditions which will apply (at least initially) to ex-PES distributors but that these will not be standard conditions, for example conditions imposing price restraints.

Many of the conditions included in the draft of the new distribution licence originate from the present PES licence. However, as indicated above, some of these conditions will apply only to ex-PES distributors whilst others will apply to all licensed distributors. The draft distribution licence is therefore split into three sections.

## **5.2 General Obligations**

Standard conditions which will apply to all licensed distributors include:

- a requirement to offer terms for use of system and retain established connections on a non-discriminatory basis;
- a requirement to prepare and publish charging statements in respect of these services,
- obligations to maintain an efficient distribution system;
- compliance with various industry agreements and codes; and
- customer service and social obligations.

Standard conditions relating to the interpretation, application and revocation of the licence will also be operative for all licensees. As explained above the revocation provisions of the licence are now included as a standard condition rather than a term of the licence.

In addition to the standard conditions set out above, there is a need for a number of new conditions. For example, Ofgem considers it appropriate to include a condition for compliance with a direction to be given by the Authority in relation to the preparation and revision of a long term development statement such as is required in the gas transporter's licence. There will also be conditions emanating from the proposed New Electricity Trading Arrangements on which there will be further consultation.

A statutory duty to offer terms for connection on all distributors is set out in the Bill. This statutory duty to connect will encompass a duty to provide an initial connection, to maintain that connection and where required, to modify that connection. Ofgem proposes to continue to include in distribution licences obligations regarding connections. For example, the obligation to retain an established connection will continue to be required via a standard licence condition.

Standard licence conditions are also considered appropriate for all licensed distributors in respect of disadvantaged customers. It is not necessary to limit these obligations to designated customers in the same manner as is proposed for supply licences as distributors cannot elect only to distribute to certain categories of customers in the same way that

suppliers can. The draft standard conditions incorporate the changes proposed in Ofgem's consultation document on the Social Action Plan.

### **5.3 Additional Obligations**

Some standard conditions need only apply to a sub-set of distributors. It is considered that, at least initially, this sub-set of distributors will be those companies who continue to carry out the distribution activities of the present PESs (ex-PES distributors). Distribution licences will not be issued in respect of mutually exclusive geographical areas, that is, there will be no "specified premises" schedule. However, some of the additional obligations will only need to apply in relation to a specified geographical area. The draft licence refers to this area as the Distribution Service Area. It is envisaged that each PES's present "authorised area" will form its new Distribution Service Area.

The main additional obligations are those which are necessary to ensure that the services which are presently provided by PESs, in their capacity as distributors, continue to be provided. The majority of these services are those which were required to introduce, and subsequently facilitate, competition in the supply of electricity. These obligations relate to the provision of registration systems, data transfer systems and certain metering and data services. No changes are proposed to the present licence requirements in respect of the provision of registration systems and data transfer systems. It is intended that distribution licensees preparing charging statements for use of system, connection, meter provision, meter maintenance and other services should first consult with potential users of the relevant service. Ofgem considers it important that such charging statements be sent to the Authority in advance of the new charges taking effect and that the Authority has a right of veto. This is reflected in the relevant conditions of the distribution licence.

### **5.4 Metering**

In its May 1999 consultation document on separation of businesses, Ofgem concluded that it was appropriate for PES distribution businesses to be responsible for providing, on a non-discriminatory basis, services relating to the provision of meters and maintenance of meters. This is reflected in the draft standard conditions for ex-PES distributors.

### **5.5 *Duty to Connect***

Although the duty to connect is encompassed in the Bill, this duty will not arise in circumstances where the making of a connection requires the powers under Schedules 3 and 4 of the Electricity Act 1989 and where the distribution licence holder does not have these powers at its disposal by virtue of his licence. At least initially, Ofgem expects to provide the relevant powers to all ex-PES distributors and these will apply at least in respect of their Distribution Service Area. This means that all areas of Great Britain will be covered. Other distribution licensees who wish to have such powers, and consequentially the duty to connect obligation, can apply for them subject to satisfying the Authority as to certain criteria.

## **6. Gas Shipping and Transportation Licences**

### **6.1 Shipping**

No major changes to the gas shipping licence are proposed. Government has indicated that it considers it would be premature to remove gas shipping from the scope of licensing. However, the Bill provides for the Secretary of State to remove activities from regulation, where appropriate. The future of gas shipping as a licensed activity could therefore be addressed at a later date, after the usual process of consultation.

### **6.2 Transportation**

Ofgem has amended the gas transporter licence (from which, for consistency with the changes being made in electricity, the word 'public' will be removed) to contain ring-fencing provisions, in respect both of finance and disclosure of information. As with the gas supply licence, references to Special Customer Payment Claims (in Standard Condition 10) have been deleted. Similarly, any reference to the mechanism for election to increase the ceiling for deemed gas contracts above 73,200 kWh has been deleted. Ofgem has included a new provision for establishing complaints handling procedures, in gas transporters' licences as well as electricity distribution licences.

The condition relating to a long term development statement will remain and has been replicated in electricity distribution licences.

Ofgem considers that information to facilitate customers changing suppliers, for example, 'M' numbers, associated addresses, etc should be made available by transporters to customers at no direct charge and continue to be made available to suppliers and shippers, mirroring the position in electricity. Also, an enquiry service similar to that provided by BG Transco plc as a gas transporter and electricity ex-PES distribution companies is required by a new licence condition in gas transporters' licences. Aligning gas and electricity provisions also requires gas transporters to ensure that data held on the supply point administration system should be of a reasonable quality (complete, unique, accurate and maintained in co-operation with shippers and suppliers) such that a supplier can accurately determine the correct meter point reference number for any address.

The DTI has consulted on Priority Gas Customer Arrangements and this will necessitate changes to the transporters' licences. In addition, the DTI is planning to consult on the release of certain information to additional categories of approved recipients. This may impact on transportation licence conditions.

### ***6.2.1 Removal of Geographic Exclusivity***

The gas transporter licence will continue to specify an area within which the transporter is authorised to operate, but this area will no longer be geographically mutually exclusive. Given this removal of geographic exclusivity, Ofgem can envisage that there may be geographic areas where transporters have overlapping obligations. To this end, the licence conditions cover additional duties to consult with and provide information to all other transporters whose areas overlap. To ensure safety is not compromised (where transporters conclude agreements with respect to responsibility for safety between overlapping transporters) the transporters involved will be required to have a single point of contact for customers for the reporting of safety matters.

Additionally, with regard to any proposed licence extensions, it is expected that licence conditions will require the transporter to notify:

- companies with which it deals in the area of the extension;
- other transporters which operate in that area; and
- the Health and Safety Executive.

Ofgem understands that the Government intends to introduce further provisions relating to the removal of geographic exclusivity and there are likely to be subsequent changes to the licence conditions.

Gas transporters will be expected to take on, within their licensed areas, the general duties and powers set out in sections 9 and 11 and Schedules 3 and 4 of the Gas Act.

### ***6.2.2 Metering and Meter Activities***

Ofgem has consulted on its proposals for gas metering and meter reading and has published final proposals. These seek to establish separate price controls for BG Transco plc's metering and meter activities, and to establish a more transparent regime for regulating metering charges. To the extent that these proposals affect standard licence conditions for gas transporters, the present draft licences may be amended.

## 7. Electricity Generation and Transmission Licences

One important function of the Bill is to introduce the New Electricity Trading Arrangements (NETA). Introduction of NETA will necessitate a number of changes to the conditions of existing generation and transmission licences in respect of England and Wales which are the subject of a separate Ofgem consultation. An indication of the content of the NETA licence conditions is included in the draft standard conditions in the accompanying volumes. In addition, implementation of revised Scottish Trading Arrangements consulted on by Ofgem in its October 1999 paper "Review of Scottish Trading Arrangements" will also require further changes to generation and transmission licences.

### *7.1 Scottish Trading Arrangements*

Whilst no specific powers are contained in the Bill in relation to Scottish Trading Arrangements, Ofgem has consulted on reforming the way electricity is traded in Scotland as referred to above. That paper indicated a number of changes including:

- the robust separation of supply and generation from distribution and transmission;
- a Scotland-wide basis of trading, compatible with new electricity trading arrangements being developed for England and Wales, including the creation of a single system operator for Scotland separate from the transmission, generation and supply activities of the two Scottish companies; and
- separation of the interconnector between Scotland and England from other transmission assets of Scottish Power and a new basis for determining both access to the interconnector and the charges to be paid for its use.

Ofgem expects to publish its proposals soon. Subject to the outcome of that consultation, further changes to relevant standard licence conditions may be proposed. This is likely to include several modifications to the generation and transmission licences to underpin the present interim trading arrangements and facilitate competition on the transmission and distribution networks. Modifications may also be required in the transmission licence relating to the auctioning of capacity in the interconnector, the establishment of a separate

interconnector business and Scottish system operator, to provide system operation, interconnector access and settlement functions.

## **7.2 Transmission Licences**

As explained earlier, it is proposed that each type of licence is capable of being Great Britain wide. This intention applies equally to transmission licences. The transmission licences, which will continue to be based on mutually exclusive geographical areas, therefore contain some standard conditions, for example, separate accounting. Obligations that are suitable to incorporate as standard conditions include:

- payment of fees;
- revocation provisions;
- provision of information to the Authority;
- compliance with grid codes; and
- compliance with distribution codes.

However, at least initially, transmission licensees may be operating in slightly different market environments with different settlement requirements. It therefore seems appropriate to structure the licence so that certain conditions only apply where the licensee is trading only in Scotland or only in England and Wales.

Also, transmission licences are likely to include certain special conditions including obligations relating to price controls.

### **7.2.1. Compliance with EU Directive 96/92/EC (the "IME Directive")**

Ofgem will be consulting shortly on changes to the present transmission licences to facilitate compliance with the IME Directive. These changes will include the need to ensure robust managerial separation of the transmission system operator from other activities not relating to the transmission system and improved transparency of criteria for access to the system and to interconnectors.

### **7.3 *Generation Licences***

Many of the existing conditions of a generation licence have been included as standard conditions. These include:

- Compliance with Industry Agreements and Codes;
- Payment of Fees;
- Provision of information to the Authority;
- Compulsory Acquisition of Land; and
- Powers to carry out street works.

Some changes have been necessary to ensure consistency with other types of licences.

Some existing generators have additional switch on conditions relating to non-discrimination and an obligation to provide regulatory accounting information. These provisions form standard conditions that apply only to a sub-set of generation licensees as set out in Volume 5.

## 8. Next Steps

This paper sets out Ofgem's views on standard licence conditions. It is intended to inform the Secretary of State of the proposed content of standard licences and to continue the process of discussion and comment.

Further work on the standard conditions will, of course, be required in the light of the comments received, other consultations, proposals for secondary legislation and any amendments to the Bill. Ofgem will continue to work with DTI on amendments to the standard conditions.

Ofgem intends to hold a series of meetings with licensees to discuss the detail of the standard licence conditions and will be writing to licensees separately offering to hold such meetings.

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Views on the issues raised in this paper and the detail of the draft standard conditions are invited by **Wednesday 31 May 2000**.

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