

TRANSCO CONSULTATION REPORT ON PC42

Metering Charges

1. TRANSCO'S INITIAL PROPOSALS

In Pricing Consultation paper PC42, respondents were invited to comment on whether:

- Rebates in respect of domestic metering services provided by an organisation other than Transco should remain at £10 per annum
- It would be appropriate to increase the PPM charge to a more cost reflective level of £30, and
- A separate charge should be introduced to reflect the costs of customer-requested meter exchanges.

This paper summarises respondents' views and describes Transco's final proposals.

2. SUMMARY OF RESPONSES

Transco received seven responses to PC42, all of which were from shippers. Respondents' views and Transco's responses are summarised in the following section. The final section describes Transco's proposals.

2.1 Domestic Meter Rebate

Respondents were invited to comment on whether rebates in respect of domestic metering services provided by an organisation other than Transco should remain at £10 per annum.

Comments Received

Both respondents that commented on the domestic meter rebate agreed that it should remain at £10 per meter per annum.

One respondent noted that, since the proposed rebate reflects the costs of E6 and U6 domestic credit meters, it would be helpful to identify the costs of each meter type.

Transco's Response

The rebate is based on 1998 ABC costs which do not differentiate between domestic credit meter types. The level of the rebate is based on total domestic credit meter costs divided by the number of such meters.

2.2 Prepayment Meter Charge

Respondents were invited to comment on whether it would be appropriate to increase the prepayment meter charge to a more cost reflective level of £30.

Comments Received

Three respondents supported the principle of a cost-reflective charge, although only one respondent explicitly supported an increase in the level of the charge, whilst three respondents opposed any increase.

Three respondents commented on the impact on competition of any increase. Two respondents argued that increasing the charge would have an adverse effect on the development of competition in this part of the [supply] market. One of these respondents believed that, if suppliers were to absorb any increase, they would either offer prepayment meters only to consumers who are in debt, thereby restricting customer choice, or they would avoid taking on additional prepayment meter consumers. However, one respondent agreed with the Regulator's view that "a levy/subsidy may not sit easily with the rationale of a competitive market".

Five respondents commented on the social impact of any increase. Three respondents noted that some suppliers may pass on any increase to prepayment meter consumers, many of whom are disadvantaged. However, one respondent believed that the present cross-subsidy of prepayment meters is likely to deter new developments and increase costs to the majority of disadvantaged consumers who do not use such meters. Two respondents suggested that prepayment meter charges should be consistent with the Regulator's Social Action Plan and one respondent recommended that the Regulator develops a common [prepayment meter pricing] policy.

In addition, one respondent raised a number of more detailed issues which are dealt with in Appendix 1.

Transco's Response

Although only one respondent supported an increase in the prepayment meter charge, most respondents expressed no view and may therefore be assumed to be neutral to any such increase. Three respondents opposed any increase.

Transco believes that there are sound economic arguments for increasing the prepayment meter charge to a more cost-reflective level. Such a charge would signal the additional costs of providing prepayment meter services and would deter shippers and suppliers from placing undue reliance on such meters.

If the charge remains at its present level, the number of prepayment meters is expected to continue to rise, resulting in an increase in Transco's metering costs. Consequently, charges for all customers, including charges in respect of the majority of disadvantaged consumers who do not use a prepayment meter, would be higher.

The present cross subsidy is also likely to be incompatible with the development of effective competition in prepayment meter services. Whilst it has been argued that the benefits of supply competition have not been evenly spread to date, effective competition in the gas and electricity markets can be expected to reduce prices to the benefit of all customers.

Transco recognises respondents' concerns about the possible effect of any increase in prepayment meter charges on the development of supply competition and on prepayment meter tariffs should suppliers choose to pass on any increase to consumers. However, Transco believes that more cost-reflective prepayment meter charges are consistent with the Regulator's Social Action Plan: Discussion Paper which notes that:

Prepayment meter customers represent a very imperfect proxy for disadvantage (page 29)

The introduction of competition in metering provides new opportunities to develop services more closely linked to supplier and customer requirements (page 68)

The planned extension of competition into metering and meter reading services in both gas and electricity is likely to reflect the true costs of providing these services and the charges they raise (page 71)

Actions designed to protect disadvantaged customers in the short term, which unduly distort or deter competition, are unlikely to produce benefits for disadvantaged customers over time and may actually further harm them (page 40).

Transco therefore believes that it is appropriate to increase the prepayment meter charge to a more cost reflective level and proposes that a charge of £30 per annum is made from 1 October 1999.

2.3 Customer-requested Exchanges

Respondents were invited to comment on whether a separate charge should be introduced to reflect the costs of customer-requested meter exchanges.

Comments Received

Three respondents commented on the proposed charge.

One respondent sought clarification of the definition of "customer-requested meter exchanges" and stated that they would not support charges for exchanges due to increased loads in the market above 73,200 kWh.

One respondent opposed the proposed charge, arguing that:

If suppliers were to pass the charge on to consumers, it would increase tariffs for prepayment meter users and would discourage such users from moving to a cheaper payment method

It may encourage suppliers to ask prepayment meter users who wish to change their supplier and move to a credit meter to change their meter before changing supplier

It may result in more cross-subsidy from credit to prepayment meter consumers, and that

Consideration should be given to metering liberalisation, including the processes required to enable other organisations to carry out meter work, the development of a menu of metering charges, and the role of modular meters.

One respondent supported the proposal but suggested that, in order not to discourage removal of prepayment meters, Transco should not charge for this service.

Transco's Response

Although only one respondent supported the proposed charge, most respondents made no comment and may therefore be assumed to be neutral.

Transco confirms that it intends that the proposed charge is applied where meter exchanges are requested by Transco's customers, in all circumstances other than where Transco agrees that the exchange is required in order to support a change in load.

Transco believes that there is a strong economic argument for the introduction of such a charge, which would be consistent with Transco's existing charges for similar services, such as meter repositioning, and the requirement, in BG's Public Gas Transporter Licence, that charges should reflect costs. At present, the costs of such exchanges are reflected in transportation charges.

Such a charge is also consistent with Transco's objective of facilitating competition in meter work. Transco stated in PC42 that, if it were implemented, Transco would expect to work with the industry - as part of the wider unbundling discussions - to develop the necessary processes to enable organisations other than Transco to carry out such work. In the longer term, Transco is considering whether it would be appropriate to develop a menu of charges to enable customers to choose, and pay for, only those services that they require from Transco, and views on this would be welcome.

Transco has carefully considered the impact of the proposed charge on shippers, suppliers and consumers and considers that it is likely to:

- Result in lower transportation charges for those shippers that do not use the service
- Create the conditions to allow competition to develop, offering those shippers and suppliers that use the service the prospect of choice, and
- Lead to lower bills for consumers if suppliers pass any savings on to their customers.

Transco has also considered the suggestion that it should not charge for exchanging a prepayment meter for a standard credit meter, so as not to discourage consumers from moving to a cheaper tariff. Transco is concerned that such an approach could be regarded as discriminatory, and act as a barrier to competition in meter work. However, Transco also notes the view that not charging in these circumstances could be regarded as recognising the position of potentially disadvantaged consumers, and hence the approach could be assumed not to be unduly discriminatory. Ofgas's view on this issue in the context of the Social Action Plan would be helpful.

3. TRANSCO'S FINAL PROPOSALS

Having taken account of respondent's views, Transco proposes that:

- Rebates in respect of domestic metering services provided by an organisation other than Transco should remain at £10 per annum
- It is appropriate to increase the prepayment meter charge to a more cost reflective level of £30 per annum from 1 October 1999.
- A separate charge is introduced from 1 October 1999 to reflect the costs of customer-requested meter exchanges. It is proposed that a standard charge of £47.83 is made in respect of domestic meters, and that charges in respect of Industrial and Commercial meters are calculated on an individual time and materials basis. Transco propose making no charge for exchanging prepayment meters for

standard credit meters, provided it is agreed that this would not be unduly discriminatory.