

Ofgem's views on Transco's Proposals to make Interim Metering Charges from 1 July 2000

Introduction

Transco submitted its final charging proposals under PC57 to Ofgem on 18 June 2000. The charging proposals were amended following consultation.

Proposal

Transco are proposing to rebalance its metering and transportation charges. The proposed changes are in line with metering allowed revenues under Ofgem's proposed licence modification to split Transco's price control. This licence modification is currently out to statutory consultation.

The proposal will increase Transco's metering charges and rebates by around 50%, and reduce commodity element of the domestic customer charges by 4.3% (from 0.1510 pence per kWh to 0.1445 pence per kWh). The proposed metering charges are:

	Scaled Charge/Rebate
Domestic Supply Points	£15.28
Prepayment Meters ¹	£15.00
I & C Supply Points ²	Varies with peak load
Dataloggers ³	£537.16

The charges are interim measures which Transco are proposing to have in place until proposed revised metering and transportation charges are introduced in October 2000.

The charging proposals were amended following consultation. In particular Transco dropped proposals to reduce its Transportation charges and instead intends to deal with any over-recovery of revenue through the price control formula. This should avoid some of the administrative expense objected to by respondents to PC57.

Background/History

On 25 May 2000, Ofgem published its proposals to secure competition in metering and meter reading services⁴. These proposals included a licence modification to split Transco's existing price control into three separate components: transportation, metering and meter reading, with effect from 1 April 2000. The split price control implies a rebalancing of Transco's charges. Without such a rebalancing, Transco would under-recover against metering allowed revenues and over-recover against transportation allowed revenues.

In addition, Ofgem stated that changes to the structure of Transco's metering charges were necessary to facilitate competition. Specifically, Transco should disaggregate its metering charges to enable competition in separate services, e.g. meter provision, meter installation and meter maintenance. Transco has recently come forward with such proposals (PC54 and PC55), which are currently out to consultation. Consequent changes to metering charges would apply from 1 October 2000.

¹ Additional charges per prepayment meter

² Rebates in respect of supply points consuming 73200 kWh *per annum* and above will be determined by the formula $\{4.689 \times (PL)^{0.53} - 110.91\} / 3.65$ pence per day, where PL is the peak load expressed in kWh

³ Includes £8.46 in respect of the annual check read.

⁴ "Securing Effective Competition in Gas Metering and Meter Reading - The Director General's final proposals", Ofgem, May 2000. (The May 2000 metering document)

Respondents Views

A majority of respondents were concerned about the short timetable implied by this proposal. Concern was also expressed about arrangements lasting for only three months before being replaced on October 1st with disaggregated metering changes as set out in PC54.

A majority of respondents claimed that the increase in prepayment surcharges to £15 was insufficient. Some of these respondents stated that the proposal should therefore be rejected, while others suggested that the proposal should be accepted as a 'step in the right direction'. The GCC objected to the increase to £15, as it would disadvantage the poorest customers.

Respondents were split on how the compensating adjustment in transportation charges should be made. Decreasing the domestic customer commodity charge was supported by some; others supported a general decrease of all transportation charges. One supplier claimed that the benefits of reduced transportation charges should be targeted on industrial and commercial customers.

Discussion

As explained in its May 2000 metering document, Ofgem believes that competition in metering and meter reading services can bring substantial benefits to gas consumers. In Ofgem's view, splitting Transco's price control is an important step in promoting competition in metering and meter reading services.

The price control split is based on detailed analysis of Transco's costs. The proposed changes to Transco's charges represent, in Ofgem's view, a move towards greater cost-reflectivity.

Ofgem accepts that the proposals are intended as an interim measure and that Transco intends to implement disaggregated charges for gas metering with effect from 1 October 2000 (Transco consults on these proposals in PC54 and PC55).

The likely effects on interested parties of the changes in Transco's charges in line with their split price control are set out in the May 2000 metering document in paragraphs 6.4-6.16. In summary:

- There is likely to be increased "headroom" for entrants to the metering market.
- The average shipper that chose to continue purchasing metering services from Transco would see no change to its overall bill. British Gas Trading⁵ (BGT) is the only shipper/supplier that is likely to see a small increase in their combined transportation and metering charges.
- industrial and commercial customers (as higher volume customers) are likely to see a benefit from a shift away from transportation charges.
- An increase in the level of rebate for domestic credit meters would, by definition, be matched by an equal and opposite reduction in transportation charges
- Charges to prepayment customers, if passed on, could result in a net increase in those customers' bills. However the great majority of prepayment meter customers buy gas from BGT whose charges are capped, and so will not be affected.

Ofgem acknowledges the concerns of respondents about the timing of these proposals. However, the changes are necessary in the light of the proposed split price control. A

⁵ BGT portfolio of customers has a smaller than average typical gas volume and a larger than average proportion of prepayment meter customers.

later implementation date, in line with normal notification periods, would increase the likely magnitude of metering price changes this year – and generate price instability between this year and next year. In Ofgem's view, early implementation of these interim measures is preferable.

Ofgem notes that Transco has amended its proposal so as not to reduce transportation charges from 1 July 2000 to reflect the increase in PPM charges. Given the strength of concerns expressed by respondents about the administrative costs associated with a change in transportation charges, and the small scale of the revenue involved, Ofgem accepts that this adjustment to Transco's revenues is dealt with via the correction factor, ie. its transportation charges are not altered with effect from 1 July 2000.

Ofgem's decision

In view of the above points, Ofgem has decided not to veto Transco's proposal to introduce interim metering charges from 1 July 2000.