

TRANSCO PRICING CONSULTATION PAPER PC57

Interim Metering Charges from 1 July 2000

SUMMARY

At present, costs associated with meters, service pipes and emergency work are reflected in a bundled customer charge. Rebates are available where a meter is provided, installed and maintained by an organisation other than Transco

In order to further facilitate competition in metering, Transco will be consulting separately on proposals to replace the current structure of metering charges and rebates with separate charges for provision, installation and maintenance. It is proposed that this new charging structure will apply from 1 October 2000 in respect of meters, dataloggers and correctors owned by Transco. This paper discusses the level of charges and rebates that will apply in the interim period to 30 September 2000.

Ofgem is proposing to split Transco's existing price control into three separate controls covering transportation, metering and meter reading activities. These separate controls will determine the allowed revenue for each activity.

Ofgem's proposed split of allowed revenues implies target revenue of £407.5 million for metering activities in formula year 2000/01. The present metering charges and rebates imply notional revenue of £267 million for the same formula year. Therefore, so that implied income is in line with the new metering price control, the present metering charges and rebates will need to increase by about 50% on average. Transco also proposes to reduce transportation charges to offset the expected increase in prepayment meter revenues.

In order to facilitate competition in metering services and minimise any potential under recovery of metering revenue, it is proposed that the revised charges and rebates are introduced as soon as possible. Subject to the agreement of shippers and Ofgem, Transco therefore proposes to introduce the revised charges and rebates from 1 July 2000. This timescale requires that the normal consultation period be shortened to 3 weeks and, subject to a Network Code modification, that notice of the new charges is reduced from 2 months to 7 days.

1. INTRODUCTION

At present, costs associated with meters, service pipes and emergency work are reflected in a bundled customer charge.

Ofgem has been considering how to extend competition in metering services and its views have been set out in three consultation papers¹. Ofgem's proposals include the introduction of a separate price control for metering activities from 1 April 2000.

To facilitate competition in metering, Transco consulted in May 1998 on proposals for a rebate of transportation charges where a meter is provided, installed and maintained by an organisation other than Transco². Rebates for this category of domestic and Industrial and Commercial (I&C) supply points were introduced from 6 April 1999. The rebate for domestic meters is presently £10 per supply point, whilst the rebate for I&C meters is a function of supply point capacity.

Following discussions with Ofgas about the level of costs associated with providing prepayment metering services, a £10 charge was introduced from 1 October 1998. In May 1999, Transco consulted on proposals to increase the prepayment meter charge to £30 and to introduce a separate charge for shipper requested meter exchanges³. Ofgem vetoed these proposals.

In order to further facilitate competition in metering, Transco will be separately consulting on proposals to replace the present structure of metering charges and rebates with separate charges for provision, installation and maintenance⁴. It is proposed that this new charging structure will apply from 1 October 2000 in respect of meters, dataloggers and correctors owned by Transco.

This paper discusses the level of charges and rebates that will apply in the interim period to 30 September 2000.

2. METERING REVENUE

Ofgem is proposing to split Transco's existing price control into three separate price controls covering transportation, metering and meter reading activities. These separate price controls will determine the allowed revenue for each activity. Ofgem proposes that the new price controls will be introduced retrospectively from 1 April 2000.

¹ "Securing effective Competition in Gas Metering and Meter Reading services, The Director General's initial proposals", Ofgas, October 1998; "Securing effective competition in gas metering and meter reading services, A report on progress and the way forward", Ofgem, July 1999; and "Securing Effective Competition in Gas Metering and Meter Reading Services: The Director General's Final Proposals", Ofgem May 2000

² "PC25, Metering Charges", Transco, May 1998

³ "PC42, Metering Charges", Transco, May 1999

⁴ "PC54, Disaggregated Metering Charges", Transco, May 2000.

Ofgem's proposed split of allowed revenues implies target revenue of £407.5 million for metering activities in formula year 2000/01 (forecast revenue of £417.5m, less £10m in respect of the correction (k) factor attributed to metering).

Table 1 shows that the present metering charges and rebates imply income of £267 million.

Table 1 - Expected Metering Revenue

	Present Charge/Rebate	Implied Income (£m)
Domestic Supply Points (1)	£10.00	203.9
Prepayment Meters (2)	£10.00	17.2
Industrial & Commercial Supply Points (1)	Varies with peak load	45.5
Dataloggers (3)	£444.46	0.4
Total		267.0

(1) Costs are presently reflected in the customer charge element of transportation charges. A rebate is available where a meter is supplied by an organisation other than Transco. The incomes shown above represent the metering element of customer charge revenues, based on the present level of rebates

(2) For prepayment meters, an additional charge of £10 is presently made

(3) For dataloggers, an additional charge of £444.46 is presently made (includes £8.46 in respect of the annual check read).

Therefore, so that implied income is in line with the new metering price control, the present metering charges and rebates will need to increase by about 50% on average.

3. PREPAYMENT METER CHARGES

The costs of providing, installing and maintaining prepayment meters (PPMs) are greater than those associated with domestic credit meters. Following discussions with Ofgas about the level of the cost differential, an additional £10 charge was introduced from 1 October 1998.

Transco indicated at the time that it considers that this charge does not fully reflect the additional costs of providing PPM services. In 1999 Ofgem vetoed Transco's proposal to increase the charge to £30. Transco's latest analysis confirms its view that the additional forward looking cost of PPMs is about £30 per annum.

However, Ofgem has recently indicated that they consider that an additional charge of £15 reasonably reflects the additional costs of PPMs. Such a charge is consistent with the need to increase metering charges and rebates by about 50% in order to bring income in line with the metering price control.

Transco would welcome views on whether the prepayment meter charge should be increased to £15.

4. SCALED CHARGES

Assuming that the prepayment meter charge is increased to £15, it is proposed that other metering charges and rebates be scaled equi-proportionally in order to bring implied income in line with the metering price control.

Table 2 - Proposed Charges and Rebates

	Scaled Charge/ Rebate	Implied Income (£m)
Domestic Supply Points	£15.28	311.5
Prepayment Meters (1)	£15.00	25.8
I & C Supply Points (2)	Varies with peak load	69.5
Dataloggers (3)	£537.16	0.7
Total		407.5

(1) Additional charge per prepayment meter

(2) Rebates in respect of supply points consuming 73,200 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. The present datalogger charge reflects both metering and meter reading costs. For the purpose of determining a scaled datalogger charge, only the metering element has been uplifted (from £175.54 to £268.24). The uplifted metering element has then been added to the meter reading element (£268.92). The implied income relates only to the metering element of the charge. Transco will be consulting separately on proposals to disaggregate the datalogger charge into separate charges reflecting metering and meter reading costs.

Transco would welcome views on the proposal that the present metering charges and rebates are scaled equi-proportionally in order that implied income is in line with the new metering price control.

5. TRANSPORTATION CHARGES

The implied income shown in table 2 assumes that the proposed charges and rebates are deemed to apply from 1 April 2000 - the date from which Ofgem proposes to introduce the new metering price control.

Transco understands that the price control will operate as if the rebates were charges, and hence transportation revenue will automatically be offset by the increased rebates. However, the proposed increase of the prepayment meter charge is expected to generate additional income of approximately £2.1 million in the period between 1 July and 30 September (the proposed increase of the datalogger charge is expected to generate additional income of only about £60,000 over the same period).

In order to maintain revenue equivalence, Transco proposes to reduce transportation charges to offset the expected increase in prepayment meter revenues. If this were delivered through a general reduction in transportation charges, it would amount to a price cut of about 0.1%.

However, Transco proposes that it may be more appropriate to introduce a targeted reduction in the commodity element of the domestic customer charge.

Taking into account the historic profile of gas usage between July and October, a 4.3% reduction in the commodity rate (from 0.1510 pence per kWh to 0.1445 pence per kWh) from 1 July to 30 September is expected to achieve revenue equivalence. Alternatively, if revenue equivalence were to be maintained across the full year, the necessary reduction would be 0.35%.

Transco would welcome views on whether the commodity element of the domestic customer charge should be reduced to offset the expected increase in prepayment meter revenues and, if so, whether such a reduction should be based on revenue equivalence for the period 1 July to 30 September or across the full year.

6. IMPLEMENTATION

In order to facilitate competition in metering services and minimise any potential under recovery of metering revenue, it is proposed that the revised charges and rebates are introduced as soon as possible.

Subject to consultation with shippers, Ofgem and other interested parties, Transco therefore proposes to introduce the revised charges and rebates from 1 July 2000. This timescale requires that the normal consultation period be shortened to 3 weeks and, subject to a Network Code modification, that notice of the new charges is reduced from 2 months to 7 days.

The proposed charges and rebates would then apply until 30 September 2000, after which time, subject to consultation, they would be replaced by disaggregated metering charges.

Transco would welcome views on the proposed implementation timescale.

QUESTIONS FOR CONSULTATION

Transco would welcome views on the proposed level of metering charges and rebates, in particular whether:

- **The prepayment meter charge should be increased to £15**
- **The present metering charges and rebates should be scaled equi-proportionally in order that implied income is in line with the new metering price control**
- **The commodity element of the domestic customer charge should be reduced to offset the expected increase in prepayment meter revenues and, if so, whether such a reduction should be based on revenue equivalence for the period 1 July to 30 September or across the full year, and**
- **The proposals should be introduced from 1 July 2000, subject to a Network Code modification to reduce notice of the new charges to 7 days.**