

**Consultation on Prepayment Gas Meters
in Northern Ireland**

June 2009

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1.0 Executive Summary

1. The aim of this consultation is to invite the views of stakeholders in the utility industries and wider consumer community on the current licence condition of capping the percentage of meters for which the distribution licence holder can recover the additional cost of a Pay As You Go (PAYG) meter. This condition appears in both the Phoenix Natural Gas Ltd. (PNGL) and firmus energy conveyance licences. The original reasoning behind the licence condition was to protect gas consumers from inappropriately high costs as a PAYG meter costs significantly more than a standard credit meter. However technology has moved on since this condition was implemented and we present an up to date review of the costs and benefits associated with PAYG meters as well as a wider discussion on some of the wider social issues associated with PAYG meters.
2. There are now two types of PAYG meter available, standard e.g. a Libra 100 and debt recovery meter e.g. Quantum. The Libra 100 has replaced the Quantum meter as the standard PAYG meter. PNGL install Quantum meters where debt collection is required but firmus Energy Ltd. recover debt via their Libra 100 meters.
3. As part of our review we have examined whether any significant cross subsidy exists between meter types as a result of how the conveyance company charges for meters. In addition, to this we have also examined the overall position from a supply company perspective and whether there is any cross subsidy inherent in the current situation whereby supply companies in Northern Ireland tend to charge similar customer tariffs for standard credit and PAYG meters.
4. In the Greater Belfast area the additional cost to the gas distribution company of purchasing and maintaining a PAYG meter compared to a standard credit meter is currently recouped from the gas supplier through an additional conveyance charge. The results of our analysis indicate that some adjustment may need to be made to the conveyance figure charged by PNGL to ensure it recovers the total cost of PAYG meters. Our analysis on the benefit/cost to a gas supplier associated with providing customers with a PAYG Libra 100 meter compared to a standard credit meter conclude that the additional cost in distribution costs is

matched by the benefits from reduced meter reading, bad debt costs and working capital benefits. Overall our analysis did not find any evidence why supply charges to PAYG customers should vary from those to standard credit customers and this would support the current arrangements whereby charges are similar.

5. Taking into consideration the results of our analysis the Utility Regulator is proposing to remove the licence condition and allow Distribution companies to install an uncapped level of PAYG meters based on customer requests.
6. As part of the review the Utility Regulator is seeking views on the questions posed in the consultation paper, or any other aspect of the consultation. Any comments in relation to this paper should be sent to:

Eimear Smyth
Gas Supply and Distribution Division
The Utility Regulator
Queen's House
10-14 Queen's Street
Belfast BT1 6ER

Or by E-mail to: eimear.smyth@niaur.gov.uk

2.0 Introduction

7. The primary aim of this consultation is to invite the views of stakeholders in the utility industries and wider stakeholder community on the current licence condition of capping the percentage of meters for which the distribution licence holder can recover the additional cost of a Pay As You Go (PAYG) meter. This cap was originally subject to the limit that the number of standard gas prepayment meters did not exceed 13 percent of the total number of standard meters requested by the supplier. This figure was temporarily increased to 33 percent and is subject to the outcome of this review.
8. Conveyance licensees can supply more PAYG meters than the current 33 percent cap if they cover the full cost of the meter. Some licence holders have suggested that the limit within the licence is inappropriate and that distribution licence holders should be able to install and recover the additional cost of more PAYG meters.

3.0 Background

9. In Northern Ireland it is the distribution companies who install all the gas meters. PNGL installs their meters in the Greater Belfast area and they charge the supplier an amount per customer per year for the service (as later discussed). As firmus energy holds a gas supply and conveyance licence for the ten towns they install the gas meters in these areas although it is the distribution element who will own the meters.
10. PNGL currently installs Libra 100 and Quantum meters and firmus energy only install Libra 100. In the Greater Belfast area 55% of the domestic customers of Phoenix Supply Ltd. (PSL) have a PAYG meter (Libra 100 and Quantum). PAYG meters enable the customer to buy their gas in advance by topping up a swipe card. In addition, the Quantum meter has the facility to recover debt when a customer adds money to their prepayment card. These Quantum debt recovery meters are installed where a customer has fallen into arrears and the gas supply licence holder wishes to recover any outstanding debt. firmus energy can use Libra 100 meters to recover debt by increasing the tariff by 25%.

whereas the Quantum meters allow specific weekly amounts to be collected, dependant on a customer's ability to pay and the size of the outstanding debt.

11. In the Greater Belfast area prior to 2004 all PAYG meters installed were Quantum meters. Subsequently Libra 100 PAYG meters have been installed, as they are 27% cheaper than Quantum meters. However, Quantum meters are still installed for Energy Care customers and vulnerable customers who require a remote module in their homes that enables them to 'top up' the meter without having to go outside or go downstairs if they live in a flat. The remote module solution only comes with the Quantum meter. When a debt recovery facility is required Quantum meters are also installed. If a customer is given a Quantum meter for debt recovery purposes, they will generally retain this meter even when they have paid off their debt. Quantum meters now account for approximately 38% of PAYG meters in the Greater Belfast area. The Social Action Plan which is currently being drafted by the Utility Regulator (following public consultation) will explore the issues surrounding debt recovery in Northern Ireland in more detail. One of the proposed action points is to 'work with the utility suppliers to consider the merits of introducing a harmonised code of practice in relation to helping customers avoid debt and manage their way out of debt (based on current best practice).'

4.0 Costs and benefits of PAYG meters

4.1 Installation costs of PAYG meters for the gas distribution company

12. In the Greater Belfast market the gas distribution licence holder PNGL, owns all the meters. For PNGL there is a significant purchase cost differential between a PAYG and a standard credit meter. In the Greater Belfast area in 2008 a Libra 100 meter cost approximately twice as much to fit and install compared to a standard credit meter and a quantum meter was approximately 27% more expensive to fit and install than a Libra 100 meter. If all meters currently being installed in the Greater Belfast area (assuming approximately 10,000 connections per annum) were Libra 100 compared to standard credit an

additional £1.1m would be added to the natural gas cost base in the Greater Belfast area each year. For the distribution company a further cost of a PAYG meter is battery replacement every 5 years.

13. To recoup the additional costs associated with installing and maintaining a PAYG meter PNGL charge the gas supply licence holder an additional conveyance charge of £12 pa for each PAYG meter. The Utility Regulator considers the additional conveyance charge per PAYG meter should be around £21.50 pa to fully cover the additional installation and maintenance costs. It is evident that there is a difference between the figure derived by the Utility Regulator and the figure that PNGL actually charge per meter. The overall additional conveyance charge for a PAYG meter has been derived by weighting the additional costs of installing and maintaining the Libra 100 and Quantum meters based upon the current number of Libra 100 and Quantum meters installed.

14. Ultimately the conveyance charge can be recovered by suppliers in the tariffs charged to PAYG customers for their gas. However there are benefits to the suppliers that can also be passed on to customers to offset this to some extent, and we will deal with the net position in the next section of the paper.

4.2 Net costs and benefits of a PAYG meter

15. It has been stated above that there are additional costs associated with installing and maintaining a PAYG meter. However, this is not the whole story as there are additional benefits to the supply company in supplying PAYG meters to customers which will offset the additional costs. These benefits include the following:

- Customers with PAYG meters can not accumulate bad debt in the same way as credit customers.
- There is a working capital benefit as the customer pays up front rather than on a credit basis.

The extent to which benefits to the supply company in supplying PAYG meters to customers will offset the additional costs calculated by the Utility Regulator (based on the information we hold for supply companies) is outlined in the

following table. The table outlines the marginal benefits and costs of installing and maintaining a PAYG meter compared to a standard credit meter.

16. For both a PAYG meter and a standard credit meter the calculations exclude fixed overheads e.g. manpower. Given the prevalence of PAYG meters in Northern Ireland we do not see a clear argument why such overheads should be included for PAYG meters but not standard credit meters. Further consideration of the costs and benefits broken down by customer, supplier and distribution company are examined in Annex 1.
17. The net cost/benefit of a Pay as You Go meter compared to a standard credit meter is found to be -£0.95 p.a.¹ This figure is based upon the net cost/benefit of the Libra 100 meter and the Quantum meter (as outlined in table 1.0) and then weighted according to their share of the total number of Pay As You Go meters. This figure is not significantly different from a zero net cost which would support the setting of supply tariffs at a similar level for PAYG and standard credit customers.
18. The greatest marginal cost associated with the PAYG meters is the additional conveyance charge paid by the supply company to the distribution company for the installation and maintenance of the meter. In terms of the benefits of a PAYG meter over that of a standard credit meter bad debt savings (£11.71) are the most significant followed by working capital (£4.86) and debt recovery (£4.59). When these are taken together with the other factors the total is very close to the additional conveyance charge that we consider appropriate for PAYG meters.

¹ The forecast number of meters in 2010 has been employed in this calculation.

Table 1. Costs and Benefits of Pay As You Go Meter compared to a standard credit meter for a gas supplier in the Greater Belfast Area.

Benefits			Costs		
	Additional Benefits of Libra 100 over Standard Credit	Additional Benefits of Quantum over Standard Credit		Additional Costs of Libra 100 over Standard Credit	Additional Costs of Quantum over Standard Credit
Meter reading savings	£4.80	£4.80	Conveyance charge (additional meter costs and battery replacement)	Twice as much to install as a standard credit meter	27% more expensive to install than a Libra 100 meter
Lower Billing costs	£1.38	£1.43	Transactions Costs	Three times more expensive to install than a standard credit meter	Almost nine times more expensive to install than a standard credit meter. Almost three times more expensive to install than a Libra 100 meter.
Bad debt savings	£11.71	£11.71			
Debt Recovery savings	£4.59	£4.59			
Working Capital	£4.86	4.86			
No mailing house retainer	£1.06	£1.06			

4.3 Consideration for the removal of the Cap on PAYG meters in the Licences

19. The rationale for the cap in the licences was to prevent costs to customers going up. Given the current ratio of Quantum meters to Libra 100 meters our analysis has shown that overall there is no significant difference between the costs/benefits to customers of PAYG meters over standard credit meters. The Utility Regulator considers that it would therefore seem reasonable, for as long as this remains the case, for suppliers to offer Libra 100 PAYG meters and Quantum PAYG meters to customers on a similar cost/benefit basis as standard credit meters. We would continue to monitor the number of Quantum meters going forward to ensure there is no large increase in their installation.

Question 1. Do respondents agree that the cap on the percentage of PAYG meters in the licences should be removed?

4.4 Legacy PAYG meters

20. The issue of legacy meters has to be addressed. The Quantum meters installed in the Greater Belfast area as PAYG meters were more expensive than the more recently installed Libra 100 meters. Also, any Quantum meters installed for debt collection purposes would not necessarily be replaced after the debt has been paid off as they can remain as simple PAYG meters and it may not be economical to replace them.

21. The cost of the provision of a PAYG facility to customers has changed over time and will continue to change over time. It is not reasonable to treat some PAYG customers differently, based on the cost of their meter provision at that point in time. Thus there has been bundling of the costs of all PAYG meters with customers who have the cheaper, newer PAYG meters paying the same as customers with older, more expensive PAYG meters. The rationale is that customers should pay the same amount for the same level of service provision at any time, regardless of the cost of the installed equipment. Therefore the overall cost of PAYG meter provision should come down over time as the ratio

of newer cheaper PAYG meters to the older ones increases, and the older ones are gradually replaced.

Question 2. As the costs of PAYG meters have reduced is it acceptable to charge all PAYG metered customers the same on the basis that legacy Quantum meters are largely functioning solely as PAYG meters?

4.5 PAYG meters with a debt collection facility

22. As previously discussed, higher cost Quantum meters with a debt collection facility are installed in the Greater Belfast area. The main benefits are to the supplier in collecting the debt, and to the customer in budgeting for the debt repayment. Quantum meters are also installed in the Greater Belfast area for Energy Care customers and vulnerable customers who require a remote module in their homes that enables them to 'top up' the meter without having to go outside or go downstairs if they live in a flat. If a customer is given a Quantum meter for debt recovery purposes, they will generally retain this meter even when they have paid off their debt. Faulty or damaged Quantum meters are also replaced again with a Quantum meter. Although the Quantum meter is more expensive to purchase than the Libra 100 meter, the benefits to the supplier and customer will mitigate these costs particularly in cases involving significant levels of debt. Quantum meters will also avoid vulnerable customer's debt spiralling out of their control. This point is particularly applicable to energy care customers to whom the suppliers have given their commitment to provide an additional level of service to help these customers manage their gas usage. As previously stated, it is the view of the Utility Regulator that customers should pay the same amount for the same level of service provision at any time, regardless of the cost of the installed equipment and this should also apply to Quantum meters.

23. As discussed, in the Background section the Social Action Plan which is currently being drafted by the Utility Regulator will explore the issues surrounding debt recovery in Northern Ireland in more detail. One of the proposed action points is to 'work with the utility suppliers to consider the merits

of introducing a harmonised code of practice in relation to helping customers avoid debt and manage their way out of debt (based on current best practice).

5.0 Tariff implications

24. There has been much criticism of the PAYG tariffs in GB, in that they have been too high relative to the costs of the provision of the PAYG service to the customer. Thus suppliers have been accused of benefiting at the expense of the customer. As our analysis has shown that the net costs/benefits of a PAYG meter are not significantly different from a standard credit meter we would expect the PAYG tariff to be similar to a standard credit meter tariff.
25. There also needs to be consideration for the needs of vulnerable customers who are paying off debt. As the supplier could meet any additional cost of a meter with a debt collection facility the customer could therefore be on the same tariff as other PAYG customers, with the addition of the debt repayment.

Question 3. Do respondents agree that customers who are paying off debt through a PAYG meter with a debt facility should be on the same tariff as other PAYG customers?

6.0 Summary of questions posed in this consultation

Question 1. Do respondents agree that the cap on the percentage of PAYG meters in the licences should be removed?

Question 2. As the costs of PAYG meters have reduced is it acceptable to charge all PAYG metered customers the same on the basis that legacy Quantum meters are largely functioning solely as PAYG meters?

Question 3. Do respondents agree that customers who are paying off debt through a PAYG meter with a debt facility should be on the same tariff as other PAYG customers?

Annex 1.

26. The costs and benefits of prepayment meters will apply differently to the customer and the supplier, for example an advantage to a supplier may represent a cost to the customer. The key question is whether the advantages outweigh the disadvantages. An analysis of the costs/benefits to the current gas customers in Northern Ireland would require data on the profile of each customer in terms of usage, levels of debt and other socio economic characteristics which are not available. Therefore, the following table highlights the main types of costs and benefits associated with PAYG meters for the customer and for completeness the distributor and the supplier. Some non-monetary costs have been assumed to include wider social and environmental costs and benefits for which there is no market price e.g. awareness of energy consumption.

Table 2. Summary of costs and benefits of PAYG meters to the customer, the distributor and the supplier

Issue	Distributor	Supplier	Customer
Budgetary Control		<ul style="list-style-type: none"> • The gas supply licence holder will not be owed any money e.g. no outstanding gas bills left by tenants when they vacate a property. 	<ul style="list-style-type: none"> • By topping up a swipe card with a specific monetary amount per week PAYG meters will facilitate budgeting of gas consumption and will prevent the customer getting into debt and incurring bank charges for the non payment of direct debits.

<p>Energy Consumption</p>			<ul style="list-style-type: none"> • By budgeting for a monetary amount per week PAYG customers will be more aware of their energy consumption. • They are more likely to make efficiency adjustments if they wish to remain within their budget.
<p>Debt Recovery</p>		<ul style="list-style-type: none"> • A Quantum debt recovery meter will enable a supplier to recover outstanding debt in a manageable way. 	<ul style="list-style-type: none"> • A Quantum debt recovery meter will facilitate customers to pay back the money owed in a manageable way.
<p>Self Disconnection</p> <p>This issue will be addressed in the Utility Regulator's 'Social Action Plan' which is currently out to consultation.</p>		<ul style="list-style-type: none"> • The gas supplier will be unaware of the reason for self disconnection and will not be able to offer help as would be the case for quarterly credit and direct debit customers. 	<ul style="list-style-type: none"> • This includes financial reasons or the failure to buy credit. A 2006 "In Control" report published by the Consumer Council investigated the patterns of use and self disconnection by gas PAYG users in Northern Ireland. It was found that 72% of households have never disconnected and of the 27% that did 13% was for financial reasons. This issue will be addressed in

			the Utility Regulator's 'Social Action Plan
Competition			<ul style="list-style-type: none"> Phoenix Natural Gas has put forward a proposal to the Utility Regulator to enable their PAYG customers to switch supplier. The proposal is currently being considered by the Utility Regulator.
General Disadvantages			<ul style="list-style-type: none"> Some customers may have a PAYG meter installed automatically e.g. in a new housing development or a NIHE property. The supply company pays for the PAYG meter to be installed in a NIHE property If a customer would like to switch their meter from a standard credit to PAYG or vice versa this is limited to one switch per year.
Cost of installing, maintaining and operating a PAYG meter system.	Cost of installation and replacement of battery but these costs are passed on to the supplier in the form of an additional	An additional conveyance charge is paid by the supplier to the distribution company for each PAYG meter.	<ul style="list-style-type: none"> The supplier can pass on the additional conveyance charge to the customer in the form of the tariff charged for the supply of gas.

	conveyance charge.		
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