Review of Prepayment

Meters in

Northern Ireland

Decision paper

September 2009

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1.0 Introduction

1. This paper outlines the rationale for the Utility Regulator's decision on whether to allow the distribution licence holders to recover the additional costs associated with the provision of all Pay As You Go (PAYG) meters in Northern Ireland.

2. In reaching a decision the first step was to examine the results of the cost benefit analysis undertaken as part of the review of PAYG meters in Northern Ireland. In Section 2 the key issues explored are the net benefit/cost of a Pay as You Go meter compared to a standard credit meter, whether customers should pay the same amount for the same level of service provision irrespective of the meter type and the additional conveyance charge to be paid by the gas suppliers if the distribution company can recover the additional cost of all Pay As You Go (PAYG) meters provided. The implications of the proposed policy for the customer are explored in Section 2.1.1.

3. The next step was to review the responses received during the public consultation and a summary is provided in Section 3.1. Further issues to be explored in evaluating whether to introduce a policy is whether the proposed policy would conflict with any existing policies as outlined in Section 3.2 and if the policy can be easily administered (Section 3.3). Taking into consideration all of this evidence Section 4.0 outlines the decision reached by the Utility Regulator and the next steps.

2.0 Background

1. Various organisations have expressed their concerns at the policy of capping the percentage of meters for which the distribution company can recover the

additional cost of a PAYG meter. To respond to these concerns the Utility Regulator has undertaken a review of the policy. To invite the views of the utility industries and wider consumer community on the percentage of PAYG meters for which the distribution licence holder can recover their additional costs a public consultation took place from the 11th June 2009 until the 3rd August 2009.

2. The consultation paper in addition to seeking general views from the consultees asked the following specific questions:

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?

3. Following the public consultation the Utility Regulator has to decide whether to remove the cap on the percentage of PAYG meters for which their additional cost can be recovered. This decision has been informed by a cost benefit analysis of the proposed policy compared to the existing policy. The social, technical, economic and legal environment was also considered. In addition, the comments from the consultees were examined as well as whether the proposed policy would be consistent with the aims and objectives of the current gas policies. A further criterion in assessing a policy is whether it can be easily administered.

4. To implement the removal of the cap on the percentage of PAYG meters the Utility Regulator will have to propose a licence modification for the conveyance licences of Phoenix Natural Gas Ltd. licence and the firmus energy Ltd.

3.0 Analysis

3.1 Cost benefit analysis

5. The original logic 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. The consultation paper however, showed that the net benefit/cost of a Pay as You Go meter compared to a standard credit meter is -£0.95 p.a.[1]. The Utility Regulator therefore, proposes that for as long as this remains the case, suppliers should offer Libra 100 PAYG meters and Quantum PAYG meters to customers on a similar cost/benefit basis as standard credit meters.

6. In terms of the technical aspect of the review the Utility Regulator will continue to monitor the number of Quantum meters going forward to ensure there is no large increase in their installation.

7. To recoup the additional costs associated with installing and maintaining a PAYG meter Phoenix Natural Gas Ltd. charge the gas supply licence holder an additional conveyance charge for each PAYG meter supplied. The results of further analysis indicate that the additional conveyance charge should be reduced from £21.50 to £17.47. This is based on the assumption that the life of a PAYG meter is twenty years and the battery is changed every five years. This additional conveyance charge will be recouped through the benefits generated by these meters. Therefore, the proposed policy to allow the distribution companies to recover 100% of the additional costs of a PAYG meter will result in a figure which is not significantly different from a zero net cost. The most significant benefit of a PAYG meter compared to a standard credit meter is the bad debt

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

savings (£11.71) followed by working capital (£4.86) and debt recovery (£4.59). Annex 1 contains a table summarising the costs and benefits of a Pay As You Go Meter compared to a standard credit meter for a gas supplier in the Greater Belfast Area.

3.1.1 Gas customers

8. The implications of the proposed policy is that any customer who wants a PAYG meter will be able to have one installed and there will be no additional installation cost charged. PAYG meters will enable customers to budget for a specific amount of gas per week. This will enable customers to make efficiency adjustments if they wish to remain within their budget. In addition, a quantum meter will facilitate customers who owe money to pay back what they owe in a manageable amount. By budgeting for a specific amount of gas PAYG customers will be more aware of their energy consumption and will try to avoid wastage.
9. The issue of domestic customers self disconnecting from PAYG meters for financial reasons etc. will be addressed in the Utility Regulator's Social Action Plan.

3.2 Consultation responses

10. The public consultation on PAYG meters in Northern Ireland generated ten written responses. A summary of each response, excluding one, which is confidential, is included in Annex 2. The nine original responses are included in Annex 3. The responses were received from Phoenix Natural Gas Ltd., Phoenix Supply Ltd. firmus energy Ltd. DETI, Airtricity Ltd., NIE Energy, Energy Saving Trust, National Energy Association (NEA), Older People's Advocate and the Consumer Council.

11. As previously mentioned the consultation paper asked the following specific questions:

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

Eight of the nine respondents were in favour of the new policy. Airtricity NI Ltd. urged the Utility Regulator to carefully consider the decision to remove the percentage cap. They argue that although there is a net cost neutral position it does not necessarily mean that PAYG meters should be rolled out on a blanket basis. Airtricity suggest that PAYG meters should be targeted at the segment of gas customers who do not pay their bills on time. However, as the Utility Regulator's proposal confirms that there is a net cost/benefit of a PAYG meter compared to a standard credit meter there is no rationale for preventing PAYG meters being made available to all domestic customers who wish to have them.

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?

Six of the respondents specifically referred to the issues raised in question 2 and 3 and confirmed that they were in favour of all PAYG customers being charged the same tariff.

12. The consultees highlighted that the proposed policy had the following benefits:

- Does not discriminate against who gets a meter;

- PAYG prices (including legacy PAYG meters) would pay the same price as credit meters.
- PAYG customers are all charged the same tariff;
- Avoids estimated bills;
- Offers more information to customers;
- Facilitates domestic competition;
- Allows effective budgeting;
- Reduction in cost of handling enquiries;

13. One comment stated that the consultation should have assessed whether the current PAYG gas meters serve the best interests of customers. In addition, it was asked if PAYG meters provide sufficient benefits as to whether they help customers manage their usage. Table 2 within the consultation paper summarised the costs and benefits of PAYG meters for the customer, supplier and distributor. The issues of budgetary control, energy consumption, debt recovery, self disconnection, competition, and the costs of installing and operating a PAYG meter were examined for the customer, the supplier and the distributor. The table highlighted that by budgeting for a monetary amount per week PAYG customers will be more aware of their energy consumption. In addition, it was suggested that they are more likely to make efficiency adjustments if they wish to remain within their budget.

14. Other consultation comments included the request for consistency in types of PAYG meters installed and for a harmonised code of practice across suppliers to help customers avoid and manage debt. It was further suggested there should be an assessment of how PAYG meters can facilitate customer switching. These comments will be best addressed as part of the metering review.

15. Issues raised from the consultation which can be best addressed by the GMOG include consideration as to how dual fuel could create additional benefits for PAYG customers and the encouragement of suppliers in electing metering

requirements in any future operating model for the gas market in Northern Ireland. A further comment stated that recipients of PAYG meters must be shown how to use them effectively in order to reduce their energy consumption. This is an issue for the gas suppliers and a message which can be reinforced via the GMOG and the Consumer Council.

16. The Utility Regulator's Smart Metering working group will be able assist in addressing the suggestion to future proof the proposed policy to ensure there is no doubling up of costs if smart meters are introduced in the short/medium term.

17. In general the weight of the evidence would suggest that consultees are in favour of the proposed policy.

3.3 Other gas policies

18. The removal of the cap on the percentage of PAYG meters for which the distribution licence holder can recover their additional costs will not conflict with any existing gas policy. The policy will increase the availability of PAYG meters which is consistent with the principal objective of the Utility Regulator in carrying out its gas functions. This objective is to promote the development and maintenance of an efficient economic and co-ordinated gas industry. The Utility Regulator will continue to monitor the number of PAYG meters going forward.

3.4 Administration

19. Assuming the licence modifications are made to implement the proposed policy the policy can be easily administered. The percentage of meters for which the distribution licence holder can recover the additional cost of a Pay As You Go (PAYG) meter will be increased to 100%. As previously discussed, the distribution company will recover the additional cost of a pay as you go meter

through the £17.47 conveyance charge paid by the supply company for each meter installed.

4.0 Conclusion and Next Steps

20. Based upon the weight of the evidence from the review of PAYG meters and the consultation the Utility Regulator has decided to proceed with implementing the proposed policy. The Utility Regulator will propose a modification to the firmus energy Ltd. licence and the PNG Ltd. licence to remove the cap on the percentage of PAYG meters for which the distribution company is reimbursed their additional costs. The modification would be made under Article 14 of the Gas (Northern Ireland) Order 1996. The following licence modification process to include a statutory consultation will be followed and the associated timings are outlined:

(i) October 2009 - The Licensee will be consulted on the proposed modification to the Phoenix Natural Gas Ltd. licence and the firmus energy Ltd licence. Approval will be sought from the licensee in the form of a signed letter.

(ii) October 2009 - Assuming agreement is reached; the statutory consultation will be prepared and agreed with the Licensee.

(iii) October 2009 - DETI need to be formally notified of the proposed modification.

(iv) October 2009 - Following agreement from DETI to go out to statutory consultation, a public Gas Notice regarding the public consultation will be published on our website and circulated to the Gas Distribution list.

(v) November 2009- Following the minimum 28 day consultation period, if objections are received then the Utility Regulator must consider if they are relevant. All responses to the consultation will be placed on the Utility Regulator website with a Utility Regulator decision paper.

(vi) November 2009- If no objections to the proposed modification are received then the license modification can be signed off. A Notice of Modification will be sent to each of the Licensee's. The notice will confirm when the modifications will come into effect.

Annex 1

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			

Annex 2

Table 2: Summary of consultation responses

Consultee	Supportive of proposed policy	Comments on policy to remove CAP	Summary of Main Issues
Phoenix Natural Gas	Yes	• Does not discriminate between who gets a PAYG meter.	• Equity.
Phoenix Supply Ltd.	Yes	• Customers have freedom to choose meter type. • PSL PAYG customers are all charged the same tariff • Customers repaying debt should not be charged a differential tariff.	• Equity. • All PAYG same tariff.
firmus energy Ltd.	Yes	• Outlines five benefits of PAYG meters: • Reduction in cost of handling enquiries; • Avoids estimated bills; • Offer more information to customers; • Facilitate domestic competition; • Effective Budgeting • Need consistency in types of PP meters installed. • Need Harmonised code of practice to help customers avoid and manage debt.	• Consistency in PP meter type • Harmonised code of practice.
Airtricity Ltd.	Urges the consideration of the benefits of a cap.	• Airtricity NI Ltd. argue that although there is a net cost neutral position it does not necessarily mean that PAYG meters should be rolled out on a blanket basis. Airtricity suggest that PAYG meters should be targeted at the segment of gas customers who do not pay their bills on time.	• Critical of methodology. • Provision of PAYG meters.
NIE Energy	Yes	• PAYG prices (including legacy PAYG meters) should pay the same price as for credit meters. • A simple method of customer switching should be maintained. • Dual fuel could create additional benefits for PAYG customers.	• All PAYG should be charged same tariff. • Customer switching and

		• All customers should be treated the same. • Any future operating model for the gas market in NI should encourage participation of suppliers in electing metering requirements. • The consultation should also have assessed whether the current PAYG gas meters serve the best interests of customers. Do they provide sufficient benefits as to whether they help customers manage their usage?	dual fuel. • All customers should be treated the same. • Methodology – (did not consider do current PAYG gas meters serve the best interests of customers?).
Energy Saving Trust	Yes	• Consumers should not bare any unjustified costs. • The issue of the possible implementation of SMART meters should be considered. • Recipients of PAYG meters must be shown how to use them effectively to reduce their energy consumption.	• Costs to consumers of policy. • SMART metering. • PAYG and energy efficiency.
NEA		• Some households may not be suitable to use a meter. • Can the consumer switch to another payment method other than PAYG without incurring a cost. • All PAYG customers should be paying the same. • Consumers in debt should also be paying the same tariff.	• Customer switching • All PAYG should be charged same tariff.
Older People's Advocate	Yes	• Harmonised code of practice. • Customers should pay the same amount for the same level of service provision including Quantum meters.	• Harmonised code of practice. • All PAYG should be charged same tariff.
Consumer Council	Yes	• Consumers should be charged the same by the same	• All PAYG

		supplier regardless of the type of meter installed. That is all consumers paying debt through a PAYG meter with a debt recovery facility should be on the same tariff as other PAYG. • Consumers should be made aware of any cross-subsidy. • The CC is concerned that the proposed removal of this cap may mean that the additional cost is passed onto consumers. • Quantum meters should only be installed when no other meter fits the needs of the consumer. • "In the event of domestic competition, we do not wish this extra cost and hassle to impede consumers using Quantum meters from switching suppliers". • Should future proof any decision to ensure there is no doubling up of costs if smart meters are introduced in the short/medium term.	should be charged same tariff. • Costs to consumers of policy. • SMART metering. • Any cross subsidy should be evident.