



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

27 March 2009



Airtricity welcomes the opportunity to respond to the Utility Regulator's consultation on the current caps on distribution licence holders with respect to PAYG meters in Northern Ireland. Without seeing the full workings of how the Utility Regulator arrived at the additional conveyance charge, it is difficult to properly answer the question as to whether the cap should be removed or not. Having said that however, it can be deduced from the Regulator's statement that *'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'*, that this charge was derived from some averaging and extrapolation. This gave rise to the figures that were used to perform the cost/benefit analysis arriving at essentially a neutral cost position.

The fundamental flaw with this statistical exercise is that it takes no account of the true realities of the utility market, and indeed in effective markets generally. Effective markets are ordered, contracts based, persistent frameworks within which repeated transactions take place. For it to function properly, a large majority of the participants have to 'honour their bonds' and do exactly what the promised to do. In this case, a large proportion of gas customers have to pay their bills timely to ensure an effective market. But yes, there is a small proportion that do not, or will not, conform with this reasonable expectation. It is this generally small proportion that PAYG meters are targeted at.

Employing averaging and extrapolation assumes that the utility market is homogenous, which it most definitely is not. But even more fundamentally defective is that the averaging and extrapolation essentially transfers the risk value of the most debt-prone customers across the entire population.

Thus while on an average there may be a net cost neutral position, it does not necessarily lead to a conclusion that PAYG meters should be rolled out on a blanket basis and be recovered for. **PAYG meters are essentially a solution designed to address a challenging market segment and the most benefit is derived when used in this way.** That is one benefit a cap enforces: that licence holders prioritise the deployment of PAYG meters.

We would urge the Utility Regulator to carefully consider this view before proceeding with the proposal to remove the cap.

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