

TRANSCO PRICING CONSULTATION PAPER PC69

Opening Meter Reads : Review of Charge for Provision of Estimate

Summary

Under the Network Code upon supply point transfer the incoming shipper is responsible for providing an opening read by D+7. If the incoming shipper fails to provide the opening read then Transco has to provide an estimated opening read no later than D+15 and can charge for this where an individual shipper's opening read performance has fallen below 90% in any month. This paper updates Transco's calculation of the charge.

Transco's existing charge of £7.62 was introduced in 1998 following consultation (PC21) and was based on the costs at that time of producing system generated opening read estimates.

The existing charge provides a financial incentive to shippers to meet their opening read performance obligation. Such a charge supports the continuation of domestic competition because appropriate performance from shippers in providing actual opening meter readings should result in end consumer satisfaction, combined with a low level of queries and associated industry costs.

However the existing charge has not resulted in the low level of system generated estimates as predicted in PC21. The actual average shipper performance has been closer to 65% with nearly 925,000 estimated reads being provided during 2000. Actual performance from January 2001 to the end of August 2001 has shown a further reduction in average shipper performance to a little below 60% with over one million estimates being generated. With these figures in mind Transco has revisited the costs and other issues associated with this process in order to consider an appropriate charge for this service.

1. Introduction

For supply point transfers in the below 73,200 kWh per annum (Smaller Supply Point) market sector it is the responsibility of the incoming shipper to procure an opening meter read within a five day window around the date of transfer (D). Under the Network Code, if the incoming shipper fails to provide an actual reading by D+7, it is up to Transco to provide an estimated read for the supply point. The charge applies where an individual shipper's opening read performance has fallen below 90% in any month.

The initial estimates used in setting the existing charge have been reviewed in the light of actual experience with a view to revising the charge.

2. Activities

There are two main activities associated with the provision of an estimate. These are the system activities which generate and load the estimate to the readings file and the administrative activities which arise from procedures associated with agreed reads and invoicing.

3. IS Costs

Transco's accounting system does not produce detailed costs for each of its individual IS systems. Transco's Transactions Model does however allocate costs of IS systems (both development and operating costs) to 'owners' of systems. For the system that produces the estimated readings only the operating costs are of relevance now, since the development costs as discussed in PC21 have already been recovered through the present charge for a domestic opening read estimate. These operating costs are relatively low, probably of the order of £10,000 per annum, too small to be identified separately within the Transaction Model. Even if these operating costs were an order of magnitude larger the unit cost would still be very low. Given the difficulties in identifying such small costs it is proposed that the revised charge should not reflect any IS costs.

4. Administrative Costs

During 2000 the domestic opening reads team within Customer Portfolio Management (CPM) required 17.5 staff and 0.5 supervisory staff to process the administrative activities associated with the provision of the estimated reads. The costs associated with these staff including the applicable uplift for calculating specific charges¹ (at 2001 salary levels) were £1,045,785.

Dividing these costs by the total number of estimates provided during 2000 (925,000) implies a

cost per estimate of : £1.13

The number of staff required is likely to increase if the number of estimates rises significantly and/or the level of estimates requiring agreed reads rises. Transco have assumed that this unit rate is applicable in the short term. It should be noted that these

¹ See PD14 Section 7

rates would need to be reconsidered if significant changes in the process were considered necessary.

5. Other issues concerning the Provision of Opening Reads

5.1 Incentive to provide Actual Reads

The costs of providing an opening read estimate are relatively low compared with the cost of providing an actual read, which is in the region of £5.00 whether provided by Transco Meter Reading or an alternative meter reading agency.

If Transco sets a charge for the provision of an estimated reading at a level below the cost of obtaining an actual meter read there will be very little incentive for shippers to attempt to provide actual meter readings and performance levels could be expected to fall further below the existing level. The recent Ofgem document "Improving Customer Transfers, the Way Ahead" acknowledges that there are advantages for customers in being transferred on an actual or customer own meter read as opposed to an estimate. The MRAs might regard such a charge as anti-competitive and it could also discourage potential competition from alternative providers of estimates.

The existing charge is only applied where a shipper's opening read performance falls below 90% in any month. This acknowledges that it will not be practicable in all circumstances to provide an actual read. However, given that customers' own reads are acceptable the target of 90% is not considered unreasonable. There is no evidence to suggest that the existing charge acts as a disincentive to supply point transfer, except in the case of acquisitions and mergers. Network Code Modification 0468A addresses this specific problem and seeks to remove both the need for actual readings or estimated readings in the case of acquisitions and, when previously agreed with Transco, in the case of transfers of more than 10 thousand Smaller Supply Points where the User warrants that no other party in the contractual chain requires those reads. In such cases there would be no estimates provided and no associated charges.

5.2 Quality of Estimates

The industry has asked Transco to conduct a study of the quality of the estimates produced. While it is too early to know the outcome of such a study, it may result in increased costs if additional obligations regarding the validation of estimates are introduced.

5.3 Responsibility for the Provision of Estimates

Consideration needs to be given to whether the provision of opening read estimates should continue to be a Transportation activity and whether it would not be better as a Supplier activity.

If it continues to be a Transportation activity it may be appropriate to consider whether it should be provided free of charge. If estimates were provided free of charge Transco would provide an estimate to all shippers on transfer but would be unable to commit resources to the agreed reads process. This would save on staff costs associated with agreed reads and invoicing. It might also reduce costs for some shippers. The revenue that would have come from the charge would be collected through the transportation charges, effectively spreading the cost of the service across all shippers.

It may be worth considering whether it may be appropriate in the longer term to position the activity and associated costs/revenues outside of the regulated transportation area.

6. Basis of Charging for the Provision of Reads – Options:

6.1 Charge at a more cost reflective level

The charge could be reduced to a more cost reflective level of around £1.00 per estimated read. The main disadvantage to this would be a reduced incentive for shippers to provide actual readings. A charge at this level would almost certainly lead to a reduction in read performance levels and an increase in the number of estimates required.

6.2 Set charge at similar level to that for an actual meter reading

The charge could be lowered to a level around £5.00 per read which would take some account of the lower costs of providing an estimate whilst still encouraging the provision of actual meter readings. This would have the additional merit of testing the price sensitivity of the levels of estimates required.

6.3 Set charge at a level equal to the cost of obtaining an actual meter read plus the cost of providing an estimate

Setting the charge at a level equal to the sum of the cost of obtaining an actual meter reading and the cost of an estimate would ensure that an incentive exists for shippers to provide actual readings.

6.4 Leave charge at existing level

Given that there are other issues to consider and in order to maintain read performance levels the charge could remain at the present level while these issues are discussed.

6.5 Removal of the existing charge

As discussed in 5.3 above it may be appropriate to remove the present charge rather than reduce it to a very low level which barely covers the costs of collection.

Questions for Consultation

Respondents are invited to give their views on the appropriate charge when Transco provides a system generated opening read estimate for the below 73,200 kWh market sector only. The charge would, as now, only apply where a shipper's opening read performance falls below 90% in any month. Specifically to consider the following possibilities:

- 1. Should the existing charge be reduced to a more cost reflective level around £1.00? This would almost certainly lead to a reduction in read performance levels and an increase in the number of estimates required.**
- 2. Should the existing charge be reduced to around £5.00 to take some account of the lower costs whilst still encouraging the provision of actual meter readings? This would have the additional merit of testing the price sensitivity of the levels of estimates required.**

- 3. Should the charge be set at a level equal to the cost of obtaining an actual meter read plus the cost of obtaining an estimate (around £6.00)? This would ensure that shippers are provided with an incentive to provide actual meter readings.**
- 4. Should the charge remain at the present level of £7.62 while the other issues are considered?**
- 5. Should the charge be removed completely?**