

TRANSCO PRICING CONSULTATION PAPER PC79

Review of the Charge for the Provision of an Estimated Opening Read

SUMMARY

Under the Network Code, when a transfer of a Smaller Supply Point (below 73,200 kWh per annum) occurs, the incoming User is responsible for providing an Opening Meter Reading within seven days of the date of transfer (D+7 days). If the incoming User fails to provide the opening read Transco has to provide an estimated opening read no later than D+15 days. Transco applies a charge for the provision of these estimates.

The level of the present charge was established in April 2002 following Pricing Consultation paper PC69. As well as considering the normal principles of cost-reflective charging PC69 took account of other issues, including the following:

- What incentive would there be for shippers to provide an actual read if the charge for an estimate was lower than the cost of obtaining an actual read.
- Effect on competition with Meter Reading Agencies if the charge for an estimate is much lower than the cost of obtaining an actual read.
- Quality of the estimates produced relative to actual reads.

This paper updates Transco's calculation of the charge and invites responses to the two options below:

- Charging at a revised cost reflective level of £0.50 per estimate.
- Removing the charge completely.

1 BACKGROUND

Under the Network Code for Smaller Supply Points (below 73,200 kWh per annum) when a transfer occurs the incoming User is responsible for providing an opening read within seven days of the date of transfer (D+7 days). If the incoming User fails to provide the opening read Transco will generate and issue an estimated opening read no later than D+15 days. Transco can charge for this where an individual User's opening read performance has fallen below 90% in any month. The 90% figure acknowledges that it will not be practicable in all circumstances to provide an actual reading.

Following consultation (PC69), Transco reduced the charge for providing the estimate to £1.13 in April 2002, from a previous level of £7.62. The reduced charge was based on the costs, at that time, of producing system-generated opening read estimates.

When the charge was reduced there was concern that this would result in a higher level of system-generated estimates being provided, as Users would have less incentive to obtain true opening reads. However this has not happened. From April 2001 to March 2002 the actual average shipper performance was about 56% with about 1.4 million estimated reads being provided. Performance from April 2002 to March 2003

improved slightly with an average shipper performance of 58% with approximately 1 million estimates being generated.

Transco has reviewed the costs, and other issues associated with this process, in order to reconsider whether it is appropriate to charge for this service.

2 ACTIVITY COSTS

There are two main activities connected with the provision of an estimate - the information system activities, which generate the estimates, and the administrative activities that arise from procedures relating to the provision of the estimates and to the invoicing of the charges. Both activities have associated costs.

2.1 Information System (IS) Costs

Transco's accounting system does not produce detailed costs for each of its individual IS systems. Transco's Transaction 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 have already been recovered through previous charges for domestic opening read estimates. These operating costs are estimated to be around £10,000 per annum.

2.2 Administrative Costs

In PC69 it was stated that during the year 2000 17.5 staff and 0.5 supervisor were required to process the administrative activities associated with the provision of estimated reads. These figures included the activities associated with invoicing. Due to continued rationalisation of the administration activities associated with the provision of the estimates only 3 staff and 0.25 supervisors were required to carry out these activities during 2003. The costs associated with this staffing level including the applicable uplift for calculating specific charges¹ (at 2003 salary levels) were £218,000 pa. It is expected that these administrative costs will continue to fall in the future.

The main invoicing activity associated with the provision of opening read estimates is to identify which Users have been involved in transfers over the previous month and produce the appropriate invoices, which involves a certain amount of manual activity. There is also some activity in checking the invoices for payment and chasing up those which have not been paid. This requires, on an annual basis, 3 staff and 0.5 supervisors. The total cost, on the same basis as above, would be £250,000 pa.

2.3 Total Costs

The total cost is therefore £478,000. Apportioning this cost by the total number of estimates provided during 2003 (940,000) gives a cost per estimate of £0.50.

¹ See PD16 Section 5

3 OTHER ISSUES CONCERNING THE PROVISION OF OPENING READS

3.1 Incentive to provide Actual Reads

The Ofgem document “Improving Customer Transfers, the Way Ahead” acknowledges that there are advantages to consumers in being transferred on an actual or customer’s own meter reading as opposed to an estimate because of reduced disputes between suppliers and improved levels of consumer satisfaction. The costs of providing an opening read estimate are relatively low compared to the cost of providing a read, which is in the region of £5.

Following the change in charge from £7.62 to £1.13, evidence shows that the use of estimates may not be highly sensitive to price. For instance, accurate bills, consumer satisfaction and costs of dealing with disputes are also drivers to obtain actual readings. During the twelve-month period April 2001 to March 2002, the average shipper performance was 56% with 1.4 million estimated reads being provided. During the following twelve-month period, April 2002 to March 2003, this performance level was 58%.

3.2 Quality of Estimates

Transco has previously conducted a study on the quality of the estimates produced, which concluded that Transco’s estimating process was fit-for-purpose.

4 OPTIONS FOR CHARGES FOR ESTIMATED OPENING READS

4.1 A cost reflective charge

If the charge were to reflect the latest cost estimates it should be set at £0.50 per estimate.

4.2 Removal of the Charge

Now that the cost-reflective level of the charge would be about 50p per estimate, and about half of this would be represented by the cost of the invoicing related activities, it may be appropriate to remove the charge altogether so as to simplify the transfer process. Removing the charge would mean that the billing cost of about 27p per estimate would be saved, thereby representing a saving for Transco and in the long run for shippers. The other costs would continue to be incurred, as the estimates would continue to be produced. The revenue which would have been raised from the reduced 50p charge, about £0.5m pa, would then be recovered through the general transportation charges, though the amount is so small in relative terms that there would be no noticeable effect on the level of the charges.

A possible disadvantage of this proposal is that it may reduce the incentives for Users to provide actual readings. However experience since the April 2002 reduction in the charge suggests that this effect may not be quantitatively very important as the number of estimates provided did not increase at all in the year following the reduction.

This is the option identified and preferred by members of the Supply Point & Billing Work Stream.

5 QUESTIONS FOR CONSULTATION

Respondents are invited to give their views on the two options below with respect to whether or not a charge should be applied when Transco provides a system generated opening read estimate for the below 73,200 kWh market sector. If a charge were to continue, it would only be applied where a User's opening read performance fell below 90% in any month.

- 1. Should the charge be maintained but reduced to a level, which reflects the latest cost estimates of £0.50 per estimate?**
- 2. Should the charge be removed completely and the equivalent revenue (about £0.5m pa) raised through the general transportation charges?**