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14 June 2004

Dear Mr Aitchison,

### **Transco consultation report on PC79**

This letter confirms Ofgem's decision not to exercise its right of veto under SLC 4A in respect of Transco's consultation PC79 regarding the provision of system generated opening read estimates. This letter has been copied to the parties that submitted responses to the pricing consultation

During consultation Transco put forward two proposals. The first was to reduce the current level of charges for Estimated Opening Meter reads from £1.13 to £0.50 and the second was to remove the charge altogether.

### **Summary of responses**

Six suppliers submitted responses to Transco's pricing consultation. Of these, four expressed support for the removal of the charge for estimated opening meter reads. They made reference to evidence which highlighted that a previous reduction in the price of this service did not have detrimental effects on the proportion of actual meter reads generated and these suppliers therefore did not consider that removal of the charge altogether would have a negative impact on the level of actual reads. Two suppliers considered that the fixed costs associated with this service would be best recovered via transportation and should only affect small supply points as the beneficiaries of the service, while one perceived that there was no case for Transco to recover additional costs through this means.

In contrast, the remaining two respondents were unsupportive of the removal of the charge and instead expressed a preference for a reduction in the charge from £1.13 to £0.50. These suppliers both considered that the charges should remain cost-reflective and were of the opinion that its removal would reduce incentives to provide actual meter readings. They also had concerns regarding the recovery of costs in relation to charges levied for the provision of estimated opening meter reads through transportation. One considered that this would establish a negative precedent, while the other perceived that only those who utilised the service should have to incur costs associated with it.

## **Transco's proposal**

Following this consultation Transco furnished Ofgem with a report detailing its proposal to remove the present charge for the provision of an Opening Read Estimate from 1 September 2004.

## **Ofgem's Decision**

SLC 4A of Transco's gas transporters licence provides the Authority with the ability to veto any proposed change to the charging methodology proposed by Transco. Ofgem endeavours to maintain consistency with the methodology objectives set out in this condition by ensuring that associated transportation charges are cost-reflective, facilitate effective competition and that they take account of developments in the transportation business.

Ofgem supports the removal of charges for estimated opening meter reads. Clear evidence has been provided which highlights that suppliers are unlikely to reduce the number of actual reads they generate due to the removal of the associated charge. As cited by two suppliers, the costs of ensuring that customer transfers progress smoothly are far larger than the potential savings generated from relying on estimated opening meter reads.

Ofgem also supports the proposal to recover the fixed costs associated with the service via transportation charges. It is clear that only a small increase in general transportation charges would be experienced and as the increase would be shared evenly between all consumers, the main users of the service (small users) would be the ones from whom the majority of the revenue would be sourced.

Ofgem considers that the proposed removal of the estimated opening read would be more efficient than the alternative option that Transco originally consulted upon in relation to a reduction of the related charge from £1.13 to £0.50. Administration of this service is more costly to Transco than the outlay associated with generating the service itself and therefore Ofgem considers that removal of the charges will help to eliminate inefficiencies associated with invoicing.

However if Ofgem becomes aware of a significant increase in the provision of estimated reads it will be necessary to consider whether any further regulatory action is necessary to ensure that the removal of the charge does not impact negatively on the generation of actual reads.

Therefore Ofgem does not intend to exercise its right of veto under amended SLC 4A of Transco's gas transporter licence.

Yours Sincerely

Hannah Cook