Prepayment Metering Policy in the Gas Industry

Decision Paper

CER/06/157

August, 2006
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1 Introduction

On 19th June 2006, the Commission for Energy Regulation (the Commission) published its draft decision paper (CER/06/114) setting out proposed decisions in relation to prepayment metering policy in the natural gas market. The Commission appreciates comments received regarding the issues set out in the paper. Responses were received from:

- Airtricity
- Bord Gáis Energy Supply
- Bord Gáis Networks
- Energia
- ESB Customer Supply
- Flogas
- Members of the Public

1.1 Legislation

Under the Electricity (Regulation) Act, 1999, Section 9, the Commission for Energy Regulation (“the Commission”) is responsible for protecting the interests of final customers. Following the introduction of the Gas (Interim) (Regulation) Act, 2002 this was extended to include natural gas and also to promoting competition in the supply of natural gas.
2 Commission’s Decision
The Commission is of the view that the development and implementation of appropriate policy in relation to prepayment metering in the gas industry is in the best interest of final customers and will also further facilitate competition in the domestic market by allowing independent suppliers to access facilities to control their levels of bad debt.

With this in mind the Commission has made the following decisions:

1. Roll Out
The Commission has decided that prepayment meters will be available to natural gas customers regardless of geographical location. The Commission recognises that in a small number of cases it may not always be practical to install a prepayment meter due to the location of the premises in relation to access to top up facilities.

2. Bord Gáis Networks
To facilitate this policy the new Commission requires Bord Gáis Networks to produce an implementation plan detailing the timeframe required to put in place technology, back end systems and an ongoing support system for prepayment meters in a multi-shipper environment and for the geographical roll out of these meters.

3. Availability of prepayment meters
The Commission has decided that prepayment meters should be made available to all customers and developers (including Local Authorities) of natural gas on request. Suppliers shall be allowed to request prepayment meters for vulnerable customers but shall be required to assess a customer’s ability to use the technology and access adequate top up facilities when making a request.

4. Use of prepayment meters
The Commission has decided that debt recovery facilities shall not be directly offered by prepayment metering technology in the gas industry. This issue is discussed further in the main body of the document.

5. Code of Practice
The Commission has decided that suppliers shall be required to operate within the parameters of a Code of Practice in relation to offering customers prepayment meters. The aim of this Code is to protect the interests of customers who have prepayment meters. As a minimum the Code shall contain provisions in relation to vulnerable customers accessing meters, access to top up facilities and criteria for providing meters to customers in financial difficulties.

6. Cost of Installation
   A. Customer or Developer Requested Installation: The Commission has decided that customers or developers (including Local Authorities)
requesting the installation of prepayment meters should be required to pay the full differential cost of installing this type of meter.

B. Customers in Financial Difficulties: In the case of customers who require a prepayment meter due to genuine financial hardship, the cost of installation shall be recovered through network charges. The Commission shall monitor these supplier requested installations to ensure that only customers in financial difficulties have their installation paid for in this manner. In the event that the Commission believes it necessary a charge to suppliers will be introduced to part fund these installations. The definition of financial hardship will be agreed in parallel to the development of guidelines for the code of practice.

7. Ongoing cost of meter
The Commission has decided that customers using prepayment meters should not pay a higher charge for the ongoing maintenance of their meter compared to a customer using a credit meter. Any differential in the costs of maintaining a prepayment meter will be recovered through network charges to all customers.
2.1 Next Steps

The Commission will now begin working with industry participants to develop the business processes and service levels to support this policy.

The Commission now requires Bord Gáis Networks to identify the most appropriate technology and back office solution to fulfil the requirements of this policy. The Commission also requires Bord Gáis Networks to provide an implementation plan that will set out the various stages for the implementation of this policy. The plan should include items such as: the procurement, installation, roll out and configuration of back end systems.

Following receipt of Bord Gáis Networks proposals, it is the Commission’s preference that a final decision on technology will be made in Quarter 4 2006.

In its identification of possible solutions Bord Gáis Networks should ensure the following:

The selected metering technology should offer:
- Simple solution for customers to use
- An ability to comply with this policy

The back office solution:
- Must be able to roll out geographically
- Must be sufficient to meet the needs of customers (access to system and ease of use) and suppliers (access to payment information and transfer of credit)
- Must have the ability to operate in a multi shipper environment
3 Responses Received and Commission’s Decision

This section outlines the responses received by the Commission in relation to its Draft Decision Paper (CER/06/114) and the Commission’s Final Decision in relation to the comments received.

3.1 Installation of prepayment meters

In its Draft Decision paper the Commission proposed the geographical roll out of prepayment metering. The Commission also proposed that prepayment metering be made available to all suppliers of gas.

Respondents’ Comments

All respondents agreed with the proposal to roll out the meters geographically and also to provide them for all suppliers.

One supplier raised the possibility of rolling these meters out in advance of new technology being identified. One supplier also requested that the identification of new technology be carried out by the end of Quarter 3 2006.

One respondent also queried in which areas it would not be possible to install prepayment meters.

Commission’s Position & Decision

The Commission is assured that its proposal to roll out meters geographically and to all suppliers is supported by the responses received.

In response to the suggestion of rolling out meters in advance of new technology being identified, the Commission is of the view that it is inappropriate to roll out current technology as it will be the subject of a review and may be replaced with a different technology going forward. As this technology is currently only supported for one supplier, the Commission also believes this is inappropriate with respect to competition.

Bord Gáis Networks have been asked to identify appropriate prepayment metering technology to support this policy. This process will be subject to publication in the Official Journal of the European Union and the tendering procedures associated with this. This means that identification of technology will be dependent on the completion of this process. The Commission will work with Bord Gáis Networks to ensure that this process is completed efficiently.

The Commission would like to clarify that there are no geographical areas where prepayment meters cannot be installed; however it may be the case that access to top up facilities may limit their installation if there is not adequate coverage in a particular area.

3.2 Vulnerable Customers

The Commission in its Draft Decision paper proposed that the installation for prepayment meters should be allowed for vulnerable customers on agreement with the customer.
Respondents’ Comments
One respondent requested that the Commission should monitor the levels of self disconnection with the installation of prepayment meters. They also felt that the Commission should involve the Department of Social and Family Affairs in the process.

Another respondent questioned whether it would be possible to monitor levels of self disconnection.

Commission’s Position & Decision
In general respondents agreed with the Commission’s proposal to allow vulnerable customers to use prepayment meters. Concerns were raised regarding the self disconnection of customers and how this would be monitored. The Commission will now work with Bord Gáis Networks and suppliers to see how this can be done as part of the implementation process.

3.3 Debt Recovery & Service Provision
In its Draft Decision paper the Commission proposed that debt recovery should not be facilitated by the chosen prepayment metering technology as it would require a more complicated and costly process and could lead to barriers when changing supplier.

Respondents’ Comments
The majority of responding suppliers indicated that they believed that debt recovery is an essential tool for prepayment metering. They believed that without the ability for the meter to recover debt they would not be in a position to offer a customer a prepayment meter until all debts had been paid off.

Commission’s Position & Decision
The Commission recognises the concerns raised by suppliers as part of the process. It is clear that suppliers believe they cannot put in place a separate system for the payment of debt as they do not believe that customers would have any incentive for pay back in this way.

The Commission’s decision on this issue was influenced by the following factors.

i. Approximately 5% of prepayment meter installations are currently installed due to customers experiencing financial difficulties with the remaining 95% of meters installed on customer or local authority request. The Commission’s investigations found that prepayment meters that directly facilitate debt recovery are generally more expensive. Therefore if debt recovery through the meter is allowed, it would lead to the implementation of a more expensive prepayment meter for a small portion of the customers that use this type of meter.
ii. By eliminating the facility of debt recovery, any complexity in the change of supplier process due to outstanding debt at a meter is also removed. This supports the Commission’s decision in relation to ‘Management of Customer Payments and Arrears’ (CER/05/060). This decision prevents objections to a customer changing supplier while having an outstanding debt.

iii. The Commission is of the view that the processes and technology for prepayment metering should be kept as simple as possible.

In view of the above items, the Commission has retained its proposed decision with respect to the technology to be used for prepayment metering.

If a supplier wishes to recover debt from a customer who uses a prepayment meter, the Commission believes that a standard debt-recovery prepayment tariff should be introduced by the supplier. This tariff would reflect a higher unit rate per kWh purchased and would be made up of the standard prepayment metering rate plus an additional set charge to recover debt. The supplier then diverts the extra portion of the tariff towards the customer’s debt when they purchase gas. In doing this the supplier can recover debt in a simple manner.

This method of debt recovery uses the meter indirectly as the tariff rate is set at the meter, but does not require a more complicated technology to support it. This also eases a customer’s ability to change supplier, as when the customer makes a switch they would simply change onto their new supplier’s tariff and any outstanding debt would be left with the outgoing supplier.

3.4 Code of Practice

The Draft Decision paper suggested the introduction of a code of practice in relation to suppliers offering prepayment meters.

Respondents’ Comments

There was broad agreement that a Code of Practice should be introduced for the operation of prepayment metering.

One respondent queried how the provision of top up facilities would be made.

Commission’s Position & Decision

The Commission retains its view that the introduction of a Code of Practice for suppliers, in relation to the provision of prepayment meters, is necessary to protect the interests of customers.

At a minimum the Commission has decided that the following information should be included in this Code:

- Criteria for installation of prepayment meters for customers in financial difficulties.
- Criteria for the installation of prepayment meters for vulnerable customers.
Details regarding access to top up facilities.
Details of information required as a minimum for distribution to prepayment meter customers.
Details of emergency credit provision.
Contact details for customers if they are experiencing difficulties with their meter.
Monitoring arrangements.

The full Code will be developed through the Gas Supplier Forum and will also be the subject of a public consultation.

The provision of top up facilities is currently outsourced. Location of top up and the provision of this service will be reviewed as part of the geographical roll out.

3.5 Cost Recovery

Methods for the recovery of costs in relation to both the installation costs and ongoing maintenance costs of prepayment meters were proposed in the Draft Decision. The Commission proposed that for installation costs all customers should pay for the full cost of installation up front, with the exception of customers in extreme financial difficulty who would have the cost of their meters recovered through a network charge. The Commission also proposed that prepayment metering customers would not face a higher standing charge in relation to their type of meter. Any additional ongoing charges would be spread over all customers.

Respondents’ Comments
There were mixed responses to the cost recovery proposals set out in the Draft Decision.

In relation to the installation costs of the meter one responded stated they believed that the cost of installation should be recovered from the customer over the lifetime of the meter rather than up front. One supplier believed that the customer should not face the full differential cost of installation where the meter was required for budgeting purposes and one respondent believed that all customers should face the full costs of installation with no concession for customers in financial difficulties.

In relation to the ongoing costs of the meter the majority of respondents supported the Commission’s proposal; however one respondent did not believe that any portion of the ongoing costs should be recovered through network charges. They believed that some customers should pay the incremental cost of maintaining the meter.

A number of respondents also queried the definition that would be used to assess customers’ financial stats in order to receive a prepayment meter at no cost.

Commission’s Position & Decision
The Commission reviewed its position in relation to cost recovery taking into account the comments received. However the Commission has decided to retain its original proposal in relation to the recovery of costs with respect to prepayment metering. It is the Commission’s position that customers who are experiencing financial difficulties should be allowed to obtain a prepayment meter at no extra cost. In allowing this the customer is protected from supplier requested disconnection while paying back a debt they have accrued. This also provides that financially vulnerable customers are not exposed to an increased debt due to the receipt of a prepayment meter.

For the same reason the Commission also retains the view that there should not be a differential ongoing charge to prepayment metering customers.

The definition of financial difficulties will be decided in parallel with the development of guidelines for the code of practice.