

**THE SOCIAL DIMENSION: ACTION PLAN**

**OFFER AND OFGAS PROPOSALS**

**JUNE 1998**

## **THE SOCIAL DIMENSION: ACTION PLAN**

### **OFFER and Ofgas proposals**

#### **1. Introduction**

The Government has asked the electricity and gas regulators to prepare an industry-wide action plan to ensure efficiency, choice and fairness in the provision of gas and electricity to disadvantaged customers. Its objective is to ensure that the economic benefits of liberalisation are spread fairly amongst everyone, including the most vulnerable customers. The Government has asked that the plan establish timescales and identify milestones to be achieved over the next five years so that progress in assisting such customers can be judged against measurable targets. It sees the consumer representative bodies having an important role in developing the plan and monitoring its progress.

#### **2. Combining the OFFER and Ofgas action plans**

- 2.1 The plans attached have been prepared by OFFER and Ofgas. OFFER's plan takes account of comments from the electricity companies and consultation with the Electricity Consumers' Committees. Ofgas' plan takes account of comments from gas shippers and suppliers, and BG plc, consultation with the Gas Consumers Council and the work of Ofgas' Prepayment Steering Group. Both plans concentrate particularly on the two years to 2000. They reflect the different stages reached in the two industries in developing domestic supply competition and competition in the provision of metering and meter reading services.
- 2.2 Competition in gas supply to domestic customers has been under way for nearly two years, with the final tranche opening on 23 May 1998. Competition for electricity domestic customers is due to start in September 1998 and to roll out over the following nine months. Accordingly, information to develop the plan has been, and will be, available earlier in gas than electricity. However, a similar approach to licensing has been adopted for the two industries, which should facilitate integration of the two plans in later years.

#### **3. Consultation**

- 3.1 In the limited time available since the publication of the Green Paper, it has not been possible to consult fully with companies and consumer representatives on the details of an action plan. However, all public electricity suppliers (PESs), a number of gas shippers and suppliers, BG plc and the Electricity Association have commented on the Green Paper's proposals and these comments are reflected in

the plans. In addition, Ofgas has presented the key elements of its proposals to its Prepayment Steering Group for their input.

- 3.2 In their responses, many companies pointed to the difficulty of reconciling efficiency, choice and fairness in the provision of gas and electricity in a competitive market. A general view was that existing licence requirements should be sufficient to meet many elements in the plan, and that some social issues were matters for resolution by the Government. At the same time, a number expressed their willingness to consider with OFFER, Ofgas and the Government, further initiatives aimed at disadvantaged customers.
- 3.3 The Electricity Consumers' Committees generally gave full support to the elements proposed for the plan. They were less certain that existing licence requirements (for example, for a range of payment methods) would be sufficient to ensure that the needs of disadvantaged customers would be met. They were also concerned that there should be adequate incentives on companies to reduce costs for such customers. Many felt that there was scope for improvements in meter technology which offered the prospect of benefits for disadvantaged customers. One Committee said that consideration should be given to the development of a Code of Practice on meter interference.
- 3.4 The Gas Consumers Council also supported most of the elements of the proposed plan. However, it was particularly concerned that social welfare, and not just economic efficiency considerations, are taken into account in deciding how best to help prepayment and disadvantaged customers.
- 3.5 A number of respondents felt that more attention should be paid to the role of energy efficiency in reducing fuel costs for low income customers and those in debt. An energy efficiency charity believed that this was the only way to tackle fuel poverty in the long term. One PES said that the licence requirement of 28 days notice (for cancelling supply contracts) was not conducive to the development of innovative energy service packages which could be targeted on disadvantaged customers.
- 3.6 There was general agreement amongst respondents that it was important that actions intended to assist disadvantaged customers, properly identified those customers and their needs. It was noted that not all disadvantaged customers had prepayment meters (PPMs), or that all PPM customers were disadvantaged. Insofar as the problems of disadvantaged customers reflected their use of PPMs, it was felt that measures to improve such meters and to reduce their costs would be helpful. Other problems needed to be tackled in other ways. It was therefore felt important that, in the early stages of the planning process, there is provision for research into the characteristics and needs of both PPM and disadvantaged customers.

## **4. Factors considered in drawing up the action plans**

### **i General duty to protect customers**

- 4.1 In considering measures to be included in the plan, it should be remembered that the protection of customers has, to date, been an essential component in the regulation of both gas and electricity. Most, if not all, of the issues raised in the plan are in many respects already addressed by licence requirements on suppliers. In electricity, domestic customers have seen real reductions in electricity prices in excess of 20 per cent since privatisation; and all tariff customers (including PPM customers) will benefit from price control protection for at least the first two years of competition until April 2000. In gas, all domestic customers have seen real reductions in gas prices in excess of 30 per cent since privatisation; and all BGT customers (including PPM customers) will continue to be subject to price control protection until at least April 2000.

### **ii Protection of specific customer groups**

- 4.2 Provision has been made for the needs of particular categories of electricity and gas customers, for example, services for the elderly and disabled, and those having difficulty in meeting their bills. Suppliers are required to provide these services through their Codes of Practice, which will be subject to regular monitoring. Suppliers' licences require suppliers to maintain a "care register" of vulnerable customers and to provide services including moving meters to more convenient locations and providing energy efficiency advice. All suppliers have also agreed a debt and disconnection policy with the regulators in accordance with the licence requirements.

### **iii Competition in gas supply**

- 4.3 Competition in domestic gas supply has allowed all groups of customers to obtain significant price savings by switching to a new supplier, with PPM customers able to save up to 9 per cent. Research conducted for Ofgas by MORI<sup>1</sup> showed that, broadly speaking, switching levels are evenly distributed across all socio-economic groups.
- 4.4 In response to concerns over the marketing techniques of some gas suppliers, Ofgas introduced a licence modification designed to regulate suppliers' marketing activities. A similar modification is being made for electricity. Recent evidence indicates that complaints about doorstep selling are now falling. MORI found that, whereas on average suppliers have targeted around 70 per cent of customers through doorstep selling, 78 per cent of customers paying by means of a budget plan or PPM have benefited from this approach.

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<sup>1</sup> "Gas Competition Review: December 1997: A research study conducted by MORI for Ofgas", Ofgas, March 1998.

- 4.5 Ofgas expects that suppliers will increasingly start to offer innovative packages and payment mechanisms as competition continues to develop, and would not want to constrain such initiatives. It will continue to monitor customers' reaction to the development of competition and, in particular, the needs of PPM and disadvantaged customers.
- 4.6 In May 1997, Ofgas set up the Prepayment Steering Group to advise on key issues affecting this group of customers. Since then, Ofgas has implemented certain measures, such as reducing the level of the Central Quantum Office charge by 15 per cent, which have been of specific benefit to PPM customers, many of whom are disadvantaged. Ofgas has also taken forward extensive analysis of the costs incurred by British Gas Trading (BGT) in supplying domestic customers<sup>2</sup>.

#### **iv Competition in electricity supply**

- 4.7 Full competition in electricity has yet to commence. Time will be needed to see the effect competition will have on prices for different groups of customers, and to assess the effectiveness of the licence requirements and other arrangements put in place to protect them. It will be important not to constrain competition unduly in the early stages of opening the market and stifle the development of innovative packages and charges for all classes of customer. OFFER's plan therefore sees an important place for data gathering and monitoring in the early years, the results of which will need to inform the nature of the price control to be implemented in April 2000.

#### **v General considerations**

- 4.8 Inevitably, there are considerable uncertainties in setting a timetable for the plans and the need for introducing particular measures. In particular, in electricity time is needed to assess the cost of PPM surcharges and for any differentials in charges for different classes of customer to develop. Without information on these, and the promulgation of the Government's views on social objectives, the plan has been prepared allowing generally for periodic reviews of developments in the market. It will need to be revised in the light of these.

### **5. Prepayment meters and differential charging**

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<sup>2</sup> A full report on Ofgas' work on prepayment customers will be published shortly. This has been delayed as discussions with BGT over proposals to modify its tariff caps continue.

5.1 In its Green Paper, the Government said that, whilst the measures it proposed to deliver efficiency and choice should go a long way to improving the situation for disadvantaged customers, it would like advice on whether there should be legislation to require the gas and electricity distribution networks to make differential charges to energy supply companies to assist PPM customers. Such charges would offset some, but not all, of the additional costs faced by PPM customers. The Government recognised that such a policy could raise issues of fairness and practicality, particularly in a competitive market. It therefore asked for advice on how such a proposal might operate in practice, including how the benefits should be passed through to the intended recipients and the level at which to set the differential charges.

#### **i Respondents' views**

5.2 In commenting on the proposal, suppliers made the following points:

- since payment through a PPM was an imperfect proxy for disadvantaged customers, reducing charges for PPM customers would mean, in effect, that many disadvantaged customers who were not on PPMs would be worse off;
- a few suppliers explicitly recognised that the introduction of full competition would result in some groups of customers benefiting less than others, and supported the need for differential charging;
- many suppliers said that questions of redistribution were matters for the Government;
- the majority of suppliers said that they could agree to differential charging; and that they thought appropriate arrangements could be put in place. There were a number of suggestions about the form those arrangements might take. Generally, however, there was broad agreement that they should be on the monopoly distribution business, not on competitive supply or metering businesses. A number pointed out that such charges could reduce incentives for competition in the provision of PPM services;
- one company said that it saw no case for differential charging. In its view, the right approach was clearly to identify costs and provide the incentives to manage those costs down; and
- differential charging could artificially increase the demand for PPMs.

5.3 In electricity, of those Electricity Consumers' Committees and other respondents who replied, there were some who supported differential charging. One Committee said that an alternative approach was for suppliers to improve their own efficiency and invest in new technology to narrow price differentials. Subject to

that, disadvantaged customers could be more effectively targeted through the benefits system. The Electricity Consumers' Committees' Chairmen's Group expressed concern that differential charging would be unfair, and would reduce incentives to minimise costs and innovate.

- 5.4 The Gas Consumers Council was concerned that the current cross-subsidy in favour of PPM gas customers should not be eroded until the additional costs can be proven to be economically efficient and the distributional impact on customers had been assessed and absorbed by the measures in the action plan. It also wished to see the option for short-term cross-industry subsidies included in the action plan, so that the Government can legislate to allow the regulator to put in small value levies to protect vulnerable households.

## **ii Views of the Director General of Electricity Supply and the Director General of Gas Supply**

- 5.5 The Director General of Electricity Supply (DGES) and the Director General of Gas Supply (DGGS) share the following concerns over the Government's proposal for differential charging:

- extensive changes would be required to the Director Generals' duties and the licences of transporters, distributors, shippers and suppliers;
- differential charging may not sit easily with the rationale of a competitive market; and
- differential charging in favour of PPM customers may not help the fuel poor, as PPM customers are not a good proxy for the fuel poor.

These concerns are detailed below:

### **(a) Legislation and licensing changes**

- 5.6 The duties of the Directors General to protect the interests of customers and to secure effective competition in the supply of gas and electricity, and metering services, would need to be modified to permit the subsidising of PPM customers by other customers. The licence requirement on the transportation and distribution monopolies concerning non-discrimination would need to be weakened or qualified. Licence conditions on other public gas transporters, gas shippers and suppliers would also need to be modified.
- 5.7 Currently, licence conditions can only be changed by agreement with the licensees or following an MMC reference. If necessary changes cannot be achieved by either of these routes legislation would probably be required to change the licence

modification procedures to allow unilateral modification by Ministers. Such significant changes to the basic principles of the present regime could be destabilising for both the industries and their customers.

**(b) Incompatibility with competitive supply markets.**

- 5.8 It is the view of both Directors General that the proposal may not sit easily with the continued development of competition in the supply of gas to domestic customers and the rationale for securing competition in the supply of electricity to domestic customers. These markets are increasingly characterised by new and changing business structures, which reflect the new opportunities for cost reduction and innovation.
- 5.9 The DGGS sees voluntary prepayment in various forms becoming more attractive, as more sophisticated and interlinked services are offered to gas customers through the medium of the meter. The expected introduction of “Pay-as-you-go” meters, with no debt collection facility, should significantly reduce the capital and maintenance costs of some gas PPMs.
- 5.10 Ofgas considers it is for gas suppliers to manage their relationship with their credit customers, including those who build up debt, in the way that is most cost effective from their customers’ perspective. The installation of PPMs to recover debt is only one - at present potentially expensive - way of recovering debt. Ofgas is seeking to ensure that BGT’s tariffs do not provide an inappropriate incentive to the company to manage credit and debt recovery through the use of PPMs.
- 5.11 As the competitive supply markets develop, it cannot be assumed that the transportation and distribution businesses will continue to own and operate the metering businesses. OFFER is presently consulting on the separation of the distribution, supply and metering businesses, in order to promote competition and protect customers. Ofgas aims to publish initial proposals for the full physical, financial and informational separation of Transco’s metering and meter reading businesses from Transco’s core transportation business this Summer. Ofgas will also propose the setting of separate price controls for the three businesses. Amongst other things, such separation should provide better opportunities for innovation in PPM services to the benefit of customers.
- 5.12 The differential charging proposal would be both complex and artificial. It would require one type of business (transportation or distribution) to introduce a differential in its charging to another set of businesses (shipping or supply) to offset cost and price differences characterising a third set of businesses (metering) which also provide services for the second set of businesses.
- 5.13 Ensuring that any levy/subsidy was passed on to PPM customers by suppliers would involve controls on the total price of gas or electricity to such customers to ensure that suppliers did not increase a different component of the price. The



prospect of such controls could discourage new entrants and generally distort competition in the supply of gas and electricity to domestic customers. Also, these additional price controls would be introduced at a time when the Directors General are considering whether price controls are required on the incumbent suppliers as competition begins to be established.

**(c) Prepayment customers are not a good proxy for the “fuel poor”**

- 5.14 Customer surveys suggest that there is no straightforward relation between the “fuel poor” and those customers who pay through PPMs. A survey carried out by British Gas showed that about 40 per cent of PPM gas customers could be considered to be amongst the better-off gas customers. Also, the 1995/96 Family Expenditure Survey showed that about 90 per cent of low-income gas customers do not take gas through a PPM. Recent market research for OFFER by MORI indicated that about half of electricity PPM customers are “low income” customers (those in receipt of Income Support or Family Credit). Accordingly, a subsidy/levy for prepayment gas customers would mean many other low-income customers, including many pensioners, would pay higher gas bills. A subsidy/levy may not meet the Government’s objective of assisting those customers who are disadvantaged, but do not pay through a PPM.

**(iii) Conclusions**

- 5.15 The DGES believes that it is difficult at this stage to say how differential charging might work in practice in electricity, particularly given the unpredictable effect of opening the market, and the changing nature of PPM costs and benefits. OFFER will be analysing the costs of methods of payment, in particular PPMs, as part of the present price control review. It would be difficult to estimate the appropriate level of differential charges in advance of the results.
- 5.16 Should the Government wish to pursue differential charging, the DGES believes that there might be advantage, particularly at this stage, in confining it to the principle that the Government could require distribution businesses to make such charges, in favour of certain customer groups or suppliers at the expenses of others, in amounts specified by the Government. It would be left to the regulator, in consultation with customer groups and licensees, and in the light of new statutory duties, to consider how best that revenue should be deployed, and what associated set of price control or non-discrimination or other licence conditions might be proposed.
- 5.17 The Director General of Electricity Supply and DGGS agree that a levy/subsidy may not sit easily with the rationale of a competitive market and will be increasingly difficult and costly to administer as competition develops in both the supply of gas and electricity to domestic customers, and the provision of metering

services. The Directors General are also concerned that a subsidy/levy for PPM customers will not assist many other gas and electricity customers who could be defined as “fuel poor”, but do not take their gas or electricity supply through a PPM.

- 5.18 The Directors General wish to stress that they do not have a fundamental disagreement with the principle that the Government wishes to assist those groups it believes are in genuine need. However, the Directors General have serious concerns about the mechanism proposed by the Government. As an alternative, assistance for specific groups could be provided through public expenditure and accompanied by an increase in general or specific taxation as the Government may see fit.

**June 1998**

## THE SOCIAL DIMENSION: OUTLINE ACTION PLAN FOR ELECTRICITY

Objective	Element	Action	Timetable	Comment
1. Reduce capital, maintenance and transaction costs and improve efficiency of all meters, especially PPMs				
<u>For regulators:</u>	<ul style="list-style-type: none"> <li>• Develop competitive market for procurement of PPMs and other services</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce full competition in metering services</li> </ul>	<ul style="list-style-type: none"> <li>• Consultation, May 1998</li> <li>• Proposals on separation of businesses, Sept 1998</li> <li>• Competition in place, April 2000</li> </ul>	
<u>For companies:</u>	<ul style="list-style-type: none"> <li>• Drive forward the development and introduction of new, cheaper meters with lower transaction and maintenance costs</li> <li>• New choices in PPMs (for customers without debt)</li> </ul>	<ul style="list-style-type: none"> <li>• Keep scope for investment in new technology, reduced costs, and new choices under regular review - incentives provided by introduction of full competition in metering services and price control review</li> </ul>	<ul style="list-style-type: none"> <li>• Price review consultations 1998-99</li> </ul>	<ul style="list-style-type: none"> <li>• Medium to long term impact</li> <li>• Companies see:               <ul style="list-style-type: none"> <li>i) little scope for significant cost reductions (including stranded assets)</li> <li>ii) elimination of debt facility not relevant for costs</li> </ul> </li> </ul>
2. Increase choice of tariffs and payment methods for disadvantaged customers				
<u>For regulators:</u>	<ul style="list-style-type: none"> <li>• Ensure PPM customers are not inhibited from changing supplier</li> </ul>	<ul style="list-style-type: none"> <li>• Market research by OFFER into effect of competition on customer groups</li> <li>• Monitor               <ul style="list-style-type: none"> <li>i) what suppliers offer</li> <li>ii) customer switching rate</li> </ul> </li> <li>• Review operation of arrangements</li> </ul>	<ul style="list-style-type: none"> <li>Early 1999</li> <li>Regular monitoring</li> <li>Late 1999</li> </ul>	<ul style="list-style-type: none"> <li>• Licences require:               <ul style="list-style-type: none"> <li>- suppliers to offer PPM terms</li> <li>- PESs to make PPM infrastructure available to suppliers</li> </ul> </li> </ul>

Objective	Element	Action	Timetable	Comment
	<ul style="list-style-type: none"> <li>Study of standing charges and impact on disadvantaged customers; consider encouraging tariffs without such charges</li> </ul>	<ul style="list-style-type: none"> <li>Identify disadvantaged customers and their different requirements</li> <li>Review alternative pricing solutions for such customers</li> <li>Monitor availability of such tariffs</li> <li>Review need for encouraging such tariffs</li> </ul>	<ul style="list-style-type: none"> <li>Early 1999</li> <li>Mid 1999</li> <li>Regular monitoring</li> <li>Late 1999</li> </ul>	<ul style="list-style-type: none"> <li>Complex: many disadvantaged customers are high energy users</li> <li>Need for research into disadvantaged customers</li> <li>Some companies already offer such tariffs</li> <li>Important to see what market will offer</li> </ul>
<u>For companies:</u>	<ul style="list-style-type: none"> <li>Reduce transaction costs for serving disadvantaged customers and handling small cash payments</li> </ul>	<ul style="list-style-type: none"> <li>Keep under review, within context of price control reviews</li> </ul>	<ul style="list-style-type: none"> <li>Price review consultations 1998-99</li> </ul>	<ul style="list-style-type: none"> <li>Companies say already have wide range of payment mechanisms; and incentives to reduce costs</li> </ul>
	<ul style="list-style-type: none"> <li>New and improved range of payment mechanisms (inc for budgeting and debt)</li> </ul>	<ul style="list-style-type: none"> <li>Keep under review in consultation with Government and caring agencies (inc Fuel Direct; Household Budget Scheme)</li> <li>Monitor availability and take-up (for regulators)</li> </ul>	<ul style="list-style-type: none"> <li>Regular monitoring</li> </ul>	<ul style="list-style-type: none"> <li>Licence requires supplier to offer a range of payment methods</li> </ul>
	<ul style="list-style-type: none"> <li>Provide full information on tariffs and meters</li> </ul>	<ul style="list-style-type: none"> <li>Monitor information available (for regulators)</li> <li>Provide information on tariff comparisons (by an independent agency)</li> </ul>	<ul style="list-style-type: none"> <li>Regular monitoring as electricity market opens</li> <li>Regular [quarterly] publication</li> </ul>	<ul style="list-style-type: none"> <li>Licence requires publication of information on tariffs, including PPM tariffs</li> </ul>

Objective	Element	Action	Timetable	Comment
3. Help customers in managing debt				
<u>For regulators:</u>	<ul style="list-style-type: none"> <li>Review provisions of existing Codes of Practice on security deposits etc</li> </ul>	<ul style="list-style-type: none"> <li>Monitor use of deposits, and number of customers who return from PPMs to normal meters</li> <li>Review operation of arrangements</li> </ul>	<p>Quarterly</p> <p>Mid-1999</p>	<ul style="list-style-type: none"> <li>Licences specify criteria for security deposits; reflected in Codes</li> </ul>
<u>For companies:</u>	<ul style="list-style-type: none"> <li>More effective systems for helping disadvantaged customers manage debt</li> </ul>	<ul style="list-style-type: none"> <li>Companies to review operation of their systems (including arrangements for regular and accurate meter reading) and to report to regulator</li> <li>Possible new provisions in Code covering debt management</li> <li>Companies to target energy efficiency advice on disadvantaged customers</li> </ul>	<p>End-1998</p> <p>Mid-1999</p>	<ul style="list-style-type: none"> <li>Companies say they already provide adequate systems</li> <li>Many companies and Committees felt debt counselling more appropriate for independent advisors</li> </ul>
	<ul style="list-style-type: none"> <li>Consider ways of helping customers in greatest need (eg in a charitable trust)</li> </ul>	<ul style="list-style-type: none"> <li>Companies to consider</li> </ul>		<ul style="list-style-type: none"> <li>Companies divided in their views on charitable trust</li> </ul>
4. Clear and acceptable procedures for interruptions of supply for PPM customers				
<u>For regulators:</u>	<ul style="list-style-type: none"> <li>Develop Code of Practice on supply interruptions by PPMs</li> </ul>	<ul style="list-style-type: none"> <li>OFFER to commission research into nature of problem [with Ofgas]</li> <li>Develop Code in light of research results</li> </ul>	<p>End-1998</p> <p>Mid-1999</p>	

Objective	Element	Action	Timetable	Comment	
5. No one group of customers to gain disproportionately from competition	<u>For regulators:</u>	<ul style="list-style-type: none"> <li data-bbox="573 437 853 469">• Study of PPM costs</li> <li data-bbox="573 635 963 735">• Study of potential impact of developments in competition on tariff differentials</li> <li data-bbox="573 963 943 1034">• Scope for energy efficiency measures</li> </ul>	<ul style="list-style-type: none"> <li data-bbox="987 437 1413 544">• Analysis as part of price control review</li> <li data-bbox="987 512 1285 544">• Possible price control</li> <li data-bbox="987 628 1413 767">• Market research into effect of competition on customer groups</li> <li data-bbox="987 703 1346 767">• Assess potential impact in context of price review</li> <li data-bbox="987 995 1413 1066">• Consider as part of price control review</li> </ul>	<ul style="list-style-type: none"> <li data-bbox="1462 437 1771 469">• Consultations 1998-99</li> <li data-bbox="1462 517 1630 549">• April 2000</li> <li data-bbox="1462 628 1809 660">• Early 1999, and on-going</li> <li data-bbox="1462 708 1675 740">• By April 2000</li> <li data-bbox="1462 995 1771 1027">• Consultations 1998-99</li> </ul>	<ul style="list-style-type: none"> <li data-bbox="1845 437 2197 507">• Analysis to include costs of other payment methods</li> <li data-bbox="1845 587 2197 767">• Price control 1998-2000 provides protection for tariff (inc PPM) customers as competition gets under way</li> <li data-bbox="1845 810 2152 911">• Important to see what introduction of competition will bring</li> <li data-bbox="1845 959 2186 1029">• Suppliers required by licence to provide advice</li> <li data-bbox="1845 1034 2197 1134">• Significant financial expenditure - a matter for Government</li> <li data-bbox="1845 1145 2175 1216">• Supply price control not likely to be appropriate</li> </ul>

THE SOCIAL DIMENSION: OUTLINE ACTION PLAN FOR GAS

Objective	Element	Action	Timetable	Comments
<p><b>1. Reduce costs and improve efficiency of all meters, especially PPMs.</b></p>	<p>Develop competitive market for procurement of PPMs and other services.</p>	<p>Secure effective competition in all metering services, including PPMs through:</p>	<p>Publish initial proposals in July 1998.</p>	<p>Transco has already undertaken trials for the competitive supply of meters and meter removal services.</p>
<p><u>For regulators:</u></p>		<p>Full physical, informational and financial separation of Transco's metering business from its core transportation business.</p>	<p>Publish final proposals in September 1998.</p>	<p>Ofgas and Transco have begun discussions on separating its metering business, and creating separate price controls.</p>
		<p>Introducing separate Transco price controls for:-</p>	<p>Implementation from January 1999.</p>	<p>Against background of concerns from certain shippers, suppliers and customers, Ofgas has given competition in metering a high priority.</p>
		<p>- meter reading services; - metering services; and - transportation.</p>	<p>Publish initial proposals in July 1998.</p>	
		<p>- meter reading services;</p>	<p>Publish final proposals in September 1998.</p>	
		<p>- metering services; and</p>	<p>Implementation on 1 April 1999</p>	
		<p>- transportation.</p>	<p>As above.</p>	<p>As above.</p>
<p><u>For companies:</u></p>	<p>Develop cheaper meters with lower transaction and maintenance costs.</p>	<p>Secure effective competition in all metering services, including PPMs.</p>	<p>As above.</p>	<p>As above.</p>
	<p>New choices in PPMs for customers without debt</p>	<p>Secure effective competition in all metering services, including</p>	<p>As above.</p>	<p>As above.</p>

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Objective	Element	Action	Timetable	Comments
<u>For companies (cont):</u>		<p>PPMs.</p> <p>Ensure that BGT and other suppliers have the correct incentives to innovate for PPM customers without debt.</p> <p>Secure effective competition in domestic supply involving:-</p> <p>Completion of roll-out.</p> <p>Regular monitoring of the development of effective competition.</p> <p>Prompt reactions to new marketing initiatives by incumbent gas supplier.</p>	<p>Conclude discussions with BGT over revised tariff structure by July 1998.</p> <p>Competition roll-out completed on 23 May 1998. Competing suppliers now available to all domestic customers in Great Britain.</p> <p>Publish Competitive Market Review for domestic market by July 1998.</p> <p>Published conclusions on BGT's "Goldfish" initiative in October 1997.</p> <p>Consider initiating consultation on BGT's marketing activities by July 1998.</p>	<p>BGT has withdrawn its request to rebalance its tariffs. Nevertheless, discussions with Ofgas continue, including over BGT introducing new "debt" and "non-debt" tariffs.</p>



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<p><b>2. Increase choice of tariffs and payment methods for disadvantaged customers.</b></p>	<p>Ensure PPM customers are not inhibited from changing supplier.</p>	<p>Secure effective competition in domestic supply.</p>	<p>See 1 above.</p>	<p>See 1 above.</p>
<p><u>For regulators:</u></p>		<p>Specifically, monitor behaviour of PPM customers by commissioning surveys.</p>	<p>Commissioned surveys of domestic competition from MORI (including data on no. of PPM switchers) published in October 1996 (for south-west) and in December 1997 (for south-east)</p>	<p>Survey demonstrated that, broadly speaking, switching rates were similar across all socio-economic groups.</p>
<p><u>For regulators (cont):</u></p>		<p>We will be conducting a survey to provide up to date information on prepayment customer profiles. Such a survey would be likely to include questions designed to gather information on prepayment customers' incomes, age, and socio-</p>	<p>Continue to conduct annual surveys of domestic competition. To be carried out in July and August 1998.  To be published by the end of the year.</p>	<p>Ofgas will consult with the DTI and GCC on the terms of reference for the survey.</p>

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Objective	Element	Action	Timetable	Comments
<u>For regulators (cont):</u>	Study of standing charges and impact on disadvantaged customers; consider encouraging tariffs without such charges.	economic group and the extent to which they are in debt.	Conclude discussions with BGT over revised tariff structure by July 1998.	See 5 below.
		Ensure that customers at all consumption levels are properly protected following any rebalancing of BGT's tariffs.	Publish consultation in Spring 1999.	
		Review BGT's tariff caps.	Publish initial proposals in Summer 1999.	
		Review Transco's proposals to increase the fixed element of its annual charges from £15 to £16.40 per customer, and the additional £20 per customer (see 5 below)	Publish final proposals in Autumn 1999. Implement revised regulation from 1 April 2000. See 5 below.	
Ensure research into the behaviour of disadvantaged customers includes consumption profiles (see above).	See above.	See above.		

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Objective	Element	Action	Timetable	Comments
<u>For companies:</u>	Reduce transaction costs for serving disadvantaged customers and handling small cash payments.	Determine the level of Central Quantum Office <sup>1</sup> charges.	Reduced CQO charge from £2.15 to £1.83 per customer per month with effect from 11 May 1998.	
		Monitor the development of competition in the provision of payment networks, including the introduction of PayPoint (along with the Office of Fair Trading).	Ongoing monitoring. Review need to continue monitoring in June 1999.	
		Secure effective competition in domestic supply to provide suppliers with the incentives to minimise transaction costs (see 1 above).	See 1 above.	See 1 above.
		Monitor companies' compliance with licence requirement to offer a range of payment methods.	Ongoing monitoring.	Respondents have raised concerns about Fuel Direct. A review of Fuel Direct by the Government could alleviate such concerns. Ofgas would co-operate fully in any such review.
<u>For companies (cont):</u>	New and improved range of payment mechanisms, including for budgeting and debt.	Secure effective competition in domestic supply to provide suppliers with the incentives to provide a range of payment methods to suit all customers (see 1 above).	See 1 above.	See 1 above.

<sup>1</sup> The Central Quantum Office (or CQO) is a business unit of BGT which provides support to all suppliers with customers using Electronic Token Meters - the predominant type of prepayment meter.

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Objective	Element	Action	Timetable	Comments
<u>For companies (cont):</u>	Provide full information on tariffs and meters.	Secure effective competition in domestic supply (see 1 above) including a campaign to maximise awareness across all customer groups.  Monitor suppliers' compliance with licence requirements to publish information on tariffs and services.	Ofgas' awareness campaign largely completed by May 1998.  Ongoing monitoring.	MORI found that 91% of customers in the south-east were aware of the introduction of competition in domestic gas supply.

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Objective	Element	Action	Timetable	Comments
<p><b>3. Help customers in managing debt.</b></p>				
<p><u>For regulators:</u></p>	<p>Review existing codes of practice on security deposits.</p>	<p>Incorporate with Ofgas' review of BGT's tariff caps a review of security deposits, and its use of credit vetting.</p>	<p>See 1 above.</p>	<p>See 1 above.</p>
		<p>Monitor suppliers' compliance with licence requirements only to request "reasonable" security deposits. Specifically, to check that all suppliers' policies in respect of security deposits are compliant.</p>	<p>Send out requests for information on each suppliers' policy by September 1998.</p> <p>Reach conclusions (including enforcement action where necessary) by December 1998.</p>	
<p><u>For companies:</u></p>	<p>More effective systems for helping disadvantaged customers manage debt.</p>	<p>In any rebalancing of its tariffs, provide BGT with the correct incentives to manage debt efficiently, and in customers' best interests.</p>	<p>Conclude discussions with BGT over revised tariff structure by July 1998.</p>	<p>All companies (including GCC) felt that debt-counselling was most appropriately carried out by independent advisers, eg. Citizens Advice Bureau.</p>
<p><u>For companies (cont):</u></p>		<p>In reviewing BGT's tariff caps, consider in particular introducing identical regulatory treatment of debt and PPM costs to minimise distortions in BGT's decision-making (see 1 above).</p>	<p>See 1 above.</p>	
		<p>Secure effective competition in domestic supply to incentivise</p>		

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Objective	Element	Action	Timetable	Comments
Consider ways of helping customers in greatest need (eg. in a charitable trust).	all suppliers' to offer effective debt management services (see 1 above).  Companies to consider.	See 1 above.		

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Objective	Element	Action	Timetable	Comments
<p><b>4. Clear and acceptable procedures for interruptions of supply for PPM customers.</b></p>	<p>Develop code of practice on supply interruptions by PPMs.</p>	<p>Ofgas to conduct research into the nature of problem .</p> <p>Consider action in the light of research findings</p>	<p>During 1998.</p> <p>Publish findings in early 1999.</p>	
<p><u>For regulators:</u></p>				

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Objective	Element	Action	Timetable	Comments	
<p><b>5. No one group of customers to gain disproportionately from competition.</b></p>	<p>Study of PPM costs.</p>	<p>Carry out investigation into the efficient costs of providing, installing and maintaining PPMs, in response to Transco's proposed charges.</p>	<p>Ofgas to complete investigations in July 1998.</p>	<p>Whilst competition in metering develops, Ofgas proposes to limit any increases in PPM costs to incremental efficient costs.</p>	
<p><u>For regulators:</u></p>		<p>Outcome of investigations to inform Ofgas' decision as to whether to veto Transco's proposed charges.</p>	<p>Ofgas to decide whether to veto Transco's proposals in July/August 1998.</p>		
<p><u>For regulators (cont):</u></p>		<p>Ofgas to determine the level of the CQO charge (see 2 above).</p>	<p>See 2 above.</p>		<p>See 2 above.</p>
<p>Determine the structure of CQO's charges to different suppliers, in response to a reference from a supplier.</p>		<p>Ofgas to publish its conclusions in July 1998.</p>			
<p>Determine the costs incurred directly by BGT in supplying PPM customers.</p>	<p>Conclude discussions with BGT over revised tariff structure by</p>				



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Objective	Element	Action	Timetable	Comments
	Study of potential impact of developments in competition on tariff differentials.	Continue to monitor tariff differentials.	July 1998. Ongoing monitoring.	
	Scope for energy efficiency measures.	Monitor suppliers' compliance with licence requirements to offer energy efficiency advice to all customers.	Ongoing monitoring.	