

NGT Proposals on Metering  
FPAG Response

FPAG is intensely concerned about the proposals and about OFGEM's response to them.

We do not normally concern ourselves with process issues, but the OFGEM process here seems to have ignored key interested parties and especially to have ignored key issues. There is no reference to the impact of the proposed increased charges for prepayment meters on low-income groups and fuel poverty. **It is breathtaking that this issue is not even mentioned.**

We accept that there is not a perfect link between prepayment meter customers and FPAG. Nevertheless it is clear that prepayment customers are more likely to be on low incomes and to be in fuel poverty than other customers. For instance one third of prepayment customers are in the lowest two income deciles, i.e. amongst those with the lowest 20% of incomes.

**It is our view that NGT should withdraw and reconsider their damaging proposals. If they refuse to do so, the Consultation process should be started again and OFGEM must consider and discuss the following issues:**

- What is likely to be the proposed impact of the increase in gas prepayment charges on vulnerable consumers and on fuel poverty and what protection is in place to regulate any further proposed increases in the future? The paper suggests that charges by NGT to suppliers could increase from £29.98 at present to £46.75. It would not be adequate to argue that it is up to suppliers whether they pass this on – as it clearly puts pressure on suppliers to do so.
- Will NGT be free to increase the prepayment payment charges further in future?
- It is not at all clear from the consultation document whether in the short or medium term NGT will receive increased revenues as a result of this increase in meter charges or whether this is a rebalancing of their revenue. If they do receive increased revenue why is this permitted in the middle of a price control period?
- The Consultation Document is very coy about the ability or otherwise of OFGEM to prevent or modify the proposals put forward by NGT. If they are not able to do so this looks like a serious regulatory loophole. Is this the case? If so what are the options – licence changes etc.
- The Government's Social and Environmental Guidance to OFGEM says (3.2): 'The Authority has a duty under the Sustainable Energy Act 2003 to produce impact assessments. There should include cost/benefit analysis of the social as well as the environmental impacts of the decisions'. Such an impact assessment needs to be produced, quantifying economic and social costs and benefits.
- The supply companies are striving hard to introduce tariffs for vulnerable customers. OFGEM has been helpful on this, with its guidance on Competition Law. OFGEM should explain why it is allowing NGT – distant from customers and apparently now unconcerned about fuel poverty (unlike in the past) – to undo in part the recent good work of suppliers and OFGEM.

- Paragraph 4.9 states that in 2001, when the current price limits were set, “OFGEM indicated that the differential between domestic credit meters and pre-payment meters would remain in place until there was effective choice over alternative prepayment systems”. The paragraph goes on to say that increased competition in this market was anticipated by April 2004 but that “subsequent events have resulted in metering competition in gas developing at a slower rate than was anticipated at that time”. Yet despite this lack of progress in competition in metering, OFGEM seems unconcerned at the differential changing and indeed the prospect that meters may be removed from price control altogether (paragraphs 4.14 and 4.15).
- The basis for the proposed gas prepayment meter charges should be explained. The current level of gas prepayment charges was broadly set by Transco and approved by OFGEM at the time of the introduction of competition. There is a range of estimates of the relevant costs and at the time the charge was set towards the bottom end – but within the range – of possible costs. It will thus be important to explain how and why costs have changed so much. (Even if the charges were not wholly aligned with costs, it would be necessary, as noted, to quantify the economic benefits of increasing the charges and to compare them with the social disadvantages).
- In paragraph 4.10, it is stated that rebalancing is necessary to comply with the Competition Act? What is OFGEM’s view on this?

It seems to us on the face of it to be unlikely and we would like to see a considered legal opinion of the kind OFGEM produced for the supply companies. It would be useful to understand the Competition Act implications both under current arrangements and under the proposed arrangements. In other words, if there are Competition Act implications, do they only arise as a result of the proposed restructuring?

- In conclusion, it would be best in our view if NGT withdrew and rethought their proposals, which are damaging, especially to low income customers. If they will not, OFGEM must re-start the consultation process and assess the consequences much less superficially. OFGEM Consultation processes on this kind of issue are generally good, but this one of OFGEM’s least comprehensive and least transparent consultation documents.