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Dear Catherine

Questions from the Oral Hearing

I am writing in response to your e-mail request for further clarification on the issue of pre-payment customers using the correct device after changing supplier. We have answered each of your questions in turn below.

1. Why it is important that the customer uses the correct device

i) Token Meters

The token meter device is a magnetic swipe card (similar to bank/credit cards), the sole purpose of which is to identify and record a customer's transaction when electronically processed. There is no interaction with this card and the meter. Following a transaction or payment, the customer receives separate value tokens which are then inserted into the meter to receive a supply of electricity.

Presently, a customer that continues to use a swipe card provided by a previous supplier will have their payment record and the associated cash passed to the previous supplier by the relevant PPMIP. As a consequence, the new supplier will have no record of any transactions where the "old" swipe card was used and any financial statement issued by the new supplier will not show such transactions. This potentially results in incorrect financial quarterly and annual statements and incorrect debts on closing accounts.

Token meter technology requires a home visit to change the customer's tariff or read the meter. As a consequence, whether a customer uses the correct or

incorrect device does not affect the ability to obtain meter readings and / or the accuracy of the tariff.

ii) Key Meters and Smartcard Meters

The key device is unique to a customer's meter. As well as identifying and recording a customer's payment and passing the cash transaction on to the meter, the key passes meter readings via the meter to the supplier's customer database system on every transaction (via the PPMIP) and can transfer new tariffs down to the customer's meter. This all occurs via the shop countertop terminal. The smartcard device is a plastic card with an electronic chip (credit card size similar to satellite cards). The smartcard device is also unique to a customer's meter and operates in a very similar way to the key.

Presently, a customer who continues to use a key / smartcard provided by a previous supplier will have their payment record and the associated cash passed to the previous supplier by the relevant PPMIP. As a consequence, the new supplier will have no record of any transactions where the "old" key / smartcard was used and any financial statement issued by the new supplier will not show such transactions. Again, this potentially results in incorrect financial quarterly and annual statements and incorrect debts on closing accounts.

In addition, when a key / smartcard is issued by a new supplier it carries the new supplier's identification code and the new supplier's tariff rate. The customer, therefore, will not receive the benefit of the new tariff until the new supplier's key / smartcard is inserted into the customer's meter. As a consequence, where a customer continues to use the old supplier's key / smartcard they will continue to be charged at the old supplier's (incorrect) tariff. Similarly, meter readings will be passed to the previous supplier rather than the new supplier.

In summary, therefore, where a customer continues to use an "old" supplier's device they will experience problems with incorrect statements and/or debts being recorded by their new supplier (which could potentially affect their ability to change supplier again). Also, in the case of key / smartcard meters, customers will continue to be charged for their electricity at their old supplier's higher tariff and their account will not be updated with meter readings. For these reasons, therefore, it is clearly in the interests of customers that they use the correct device.

2. Technical constraints of current prepayment meter technology

Ofgem asked about the technical constraints of current prepayment meter technology and, in particular, why a supplier cannot overwrite a prepayment meter device with updated information such as the new supplier's identity following a change of supplier. To enable supply competition in 1998, a "Supplier ID" field was added to transaction records for all device types. However, while there is limited interaction between keys / smartcards and shop terminals as outlined above, these technologies do not possess the software capabilities to identify individual customers and re-write

the customer's device with new information such as the new supplier's identity. Such measures are also not possible with token meter technology.

These technical constraints cannot be overcome with the present meter base in the UK. The only current operational system that offers the opportunity to upgrade keys remotely is the Talexus key meter system, which is currently working in the Eastern electricity region within the M25 boundary. However, the costs that would be incurred in introducing this system across all suppliers would be prohibitive.

3. Prepayment meter technology developments

New prepayment metering and supporting software systems will give the opportunity in the future to manage prepayment customers very differently. The Talexus Key Meter system, GSM (mobile phone SMS technology) based meters and telephone line/radio frequency linked meters all offer full two way communications with the customer's meter. Such systems would significantly ease prepayment customer management and also bring added services to the customer. Moreover, such systems have controls and processes that could be operated to manage meters and associated devices (where applicable) to ensure cash and transaction records would be routed correctly.

We have written to Ofgem separately in respect of the specific problems with managing token meters and the issues surrounding the substantial investment required to upgrade a token meter prepayment customer base. As we stated in our letter to you dated 9 October 2003, we would fully support an industry wide forum to debate and understand these issues further.

4. Device for life

The "device for life" concept is a natural outcome of new prepayment technology as described in Section 3 above. However, given the constraints of current prepayment meter technology outlined in Section 2 above, we firmly believe that any attempt to operate the "device for life" philosophy at present would result in significant detriment to prepayment customers. Indeed, to operate such a philosophy would result in customers continuously paying higher prices than those quoted to them by their new supplier and on which they made the decision to change supplier.

Moreover, any attempt to retrospectively reconcile this overpayment would involve lengthy bureaucratic administrative processes. Some prepayment customers may not have a bank account for cheque refunds, etc. Customers would also have to provide regular meter readings to their new supplier. Such an approach would clearly not be in customers' interests and would effectively remove the considerable benefits to many customers of paying by prepayment.

As a consequence, we do not believe that existing constraints on the "device for life" concept can be overcome in the short term.

5. **Industry costs and industry savings**

The concept of the "supplier to supplier" solution has been discussed and outlined in some detail. Unfortunately the detailed implementation forum has not yet taken place, due to the extended appeal process that has continued over the summer. We are therefore not in a position to be able to comment on other suppliers' costs of implementation or their potential savings. In the case of SSE, however, we estimate that the cost of implementing the "supplier to supplier" solution would be significant, but that the cost of implementing the "PPMIP to PPMIP" solution would be at least double the cost of implementing the supplier to supplier option. The additional complexities of the PPMIP solution would naturally bring an extended implementation period as part of that cost model and, as was discussed on Friday, questions still remain regarding how PPMIP's would recoup these costs.

In relation to savings, as you will be aware, there are significant costs being incurred on an ongoing basis across the industry. Both solutions would halt the mainly manual processes currently being adopted to identify and reconcile misdirected monies.

I hope that the above information will assist in your deliberations. If you have any further queries, please call.

Yours sincerely,

Rob McDonald
Director of Regulation