Special Risk Review

Comments on the Draft Consultation Paper on the Capping of Estimated Billing for Unmetered Customers

of October 2018

1 Executive Summary

NERC shared the Draft Consultation Paper on the Capping of Estimated Billing with distribution companies on 2 November 2018. However, it has not yet been uploaded on to NERC's website, so it appears that the consultation coverage is limited. We have seen two versions of the consultation paper. In any case, the paper raises some issues of significant concern to distribution companies, and we recommend responding early.

NERC state that their intention in the draft regulation is to address the customers' concerns about estimated billing. NERC has suggested three methods for capping estimated bills. Of the proposals by NERC, Method 1 is the least bad option – although still not desirable. Method 2 or 3 would have a significant negative impact on estimated billing – potentially halving the overall estimated bills allowed, which would significantly worsen the revenue shortfall.

In June 2015 the Commission released a similar consultation paper on Capped Estimated Billing Methodology, but the process was suspended. Many of the concerns raised at the last consultation still apply:

1. It will create perverse incentives for customers that will potentially achieve the reverse of what NERC desires:
    - It would incentivise those customers consuming more than the cap to resist being metered; and
    - It would provide an incentive to metered customers consuming more than the cap to disable their meter so that their bill would have to be estimated.
2. It is not clear how the proposed cap would be dealt with under the published tariff methodology, which makes no provision for a cap;
    - The MYTO methodology for cost reflective tariffs means that if NERC regulate to reduce a source of allowed revenue, such as the introduction of the Capping of Estimated Billing, they should allow distribution licensees to recover that allowed revenue elsewhere. For example, if one customer tariff is capped, another would

be increased to allow the full required revenue. This will lead to a price rise in the short term for metered customers and uncapped unmetered customers until Discos can realistically install metering;

- If NERC were not to incorporate into the tariff then there will be a shortfall in Disco cash receipts, further impeding the ability to invest.

3. If the financial effect were not incorporated into the tariff there will be a significant effect on the revenue Discos can collect, we estimate that a cap based on Method 2 or 3 could halve the estimated bills for some distribution companies.

4. Discos are already required to meter customers under their Performance Agreements, with ambitious plans approved in the bidding process. The constraint on Discos delivering these plans has been the failure to implement a cost reflective tariff. In the meantime, the Meter Asset Provision (MAP) Regulations are designed to allow meters to be installed sooner. NERC does not need additional incentives to get this benefit for customers.

This proposal, and the loss of revenue that will result, would be a further significant change of the basis of the privatisation transaction.

Overall, this system seems unworkable in practice as currently proposed.

In line with NERC's mandate to protect both the customers and the licensees, we recommend that NERC considers alternative approaches that can increase the transparency of the estimated billing process without exacerbating the revenue shortfall.