

Tariffs and advice on tariffs

12.1 Customers may require advice to help them to decide which is the most appropriate tariff for their immediate needs. They may also require advice on how the structure of tariffs is likely to develop, especially if their capital expenditure could be influenced by the availability of a particular tariff or tariff feature.

12.2 The tariff structures of the four area boards are broadly similar to those which we described in our reports on YEB (Cmnd 9014) and SWALEB (Cmnd 9165). We repeat briefly that each area board is statutorily responsible for the level and structure of its tariffs but must consult the Electricity Council and its local consultative council on any changes it wishes to make. Section 37(8) of the Electricity Act 1947 prohibits the exercise of undue preference towards or undue discrimination against any customer or class of customers. Towards this end and towards encouraging the economic use of electricity, the area boards are committed to the principle of basing each tariff on the long run marginal cost (LRMC) of providing on a continuing basis an increment of load to the relevant customer or class of customers. This approach was broadly endorsed by the 1978 White Paper on Nationalised Industries (Cmnd 7131) for industries like the electricity boards whose prices are not determined primarily by the market.

12.3 But the general level of each board's tariffs is expected to be consistent with the board achieving its required financial target in terms of a return on net assets, generally set for two or three years, and its share of the ESI's annually set EFL. In addition the Secretary of State has from time to time required the ESI to change or to freeze particular tariffs or parts thereof (see paragraphs 12.14 and 12.17 to 12.20). Section 1(6)(d) of the Electricity Act 1947 requires the area boards to promote the simplification and standardisation of methods of charge. These constraints may require proportional or small adjustments of the tariff or part of the tariff facing a particular customer or class of customers from the level of its LRMC.

12.4 The general level of tariffs may move from year to year because of changes in the required return on net assets or in the EFL or because of some other requirement by the Secretary of State; but usually most important are changes in the level of the CEB's Bulk Supply Tariff (BST) which accounts for about 80 per cent of the costs of each area board.

The allocation of costs to customer groups

12.5 Based on research undertaken over the years by the Electricity Council with the assistance of the area boards, customers are grouped according to the voltage level of supply and to the characteristics of their demand. The main groups are described in paragraphs 12.11 to 12.15.

12.6 National LRMCs (known as 'yardsticks') for each customer group are produced annually by the Electricity Council for adaptation by the area boards, each of which generally endeavours to reflect its yardstick differentials in its tariff differentials after due consideration of its costs and revenues and of its marketing policy (for example, see paragraph 12.12).

12.7 Three broad types of yardsticks are identified, namely demand-related, unit-related and customer-related. Demand-related (or capacity-related) yardsticks comprise the capital, operations and maintenance costs associated with providing the CEGB plant and transmission system and the relevant area board's distribution system.

12.8 Unit-related yardsticks include the costs of burning fuel which vary by time of day and year according to the use of plant of varying efficiency and which are reflected by 26 unit rates for 36 different periods in the BST. Also included are electrical losses in the distribution systems, local authority rates, Electricity Council expenses and an adjustment for working capital.

12.9 Customer-related yardsticks comprise the costs of meter-reading, billing and collection together with a proportion of the administration, training and other overheads which do not vary with demand or consumption of units; and, for domestic and small non-domestic customers, the capital and maintenance costs of a notional 'minimum supply' which includes a meter. The yardsticks increase progressively according to the complexity of the metering or to the costs of collection. For example, they are higher for domestic customers using pre-payment rather than credit meters, although the pre-payment meter yardsticks include a credit for lower working capital because bill revenues are collected approximately three weeks earlier.

Choice of tariffs and the reflection in them of demand and unit related yardsticks

12.10 Over the last few years the area boards have been following a policy of simplifying the structures of tariffs: reducing the number of alternative tariffs on offer and standardising them in line with Electricity Council guidance (for example, see paragraph 12.27). In general the area boards aim to interpret the complex time of day or year cost messages in the BST for their customers. They attempt to give customers the clear message that electricity is relatively cheap at night and relatively expensive during winter daytime; but recognise that more detailed price messages would entail metering techniques which are too costly for most of their customers.

12.11 Table 12.1 shows the number of customers and the number of unit sales made in each broad tariff group for each of the boards in 1983-84.

12.12 *For domestic customers* the relationship between their consumption of units and their contribution to system maximum demand is more or less constant; for simplicity their demand and unit-related yardsticks are reflected together through unit charges made each quarter. Domestic customers may choose between the 'unrestricted' tariff with a single unit charge for electricity, and the 'Economy 7' tariff which, having a significantly lower night than day unit charge, may encourage customers to use electricity at night and so improve the ESI load curve and plant efficiency by spreading the demand for electricity more evenly. The night rate is a nationally agreed figure. For the day rate SWEB and NEEB each has a positive differential (of respectively 0.4p and 0.3p) over its unrestricted single rate, following an Electricity Council recommendation based on load and cost research. But all the area boards are closely watching the results of the decisions by EMEB and SEEB to adopt a zero differential to help to market space and water heating through the Economy 7 tariff. Economy 7 was introduced in 1978-79; earlier off-peak tariffs are 'preserved' for the customers who opted for them.

TABLE 12.1

Unit sales and number of customers by tariff group, 1983-84

	EMEB		NEEB		SEEB		SWEB	
	Billed sales GWH	Customers '000	Billed sales GWH	Customers '000	Billed sales GWH	Customers '000	Billed sales GWH	Customers '000
Totals	18,041	1,985	13,003	1,342	13,952	1,784	10,340	1,140
	%	%	%	%	%	%	%	%
<i>Domestic</i>								
Unrestricted	23	74	25	87	36	81	31	79
Economy 7	10	16	4	4	7	8	7	8
Preserved	1	2	1	3	4	5	7	12
Total domestic*	34	91*	29	(92)	47	(91)	45	88*
<i>Non-domestic</i>								
(including combined commercial and domestic premises)								
Block	7	6	4	6	9	7	9	10
Block Economy 7	3	1	1	—	2	1	1	1
Evening/weekend (EW)	—	—	—	—	—	—	—	—
EW Economy 7	1	—	N/A	N/A	N/A	N/A	N/A	N/A
Preserved	1	—	1	1	1	1	3	2
Maximum demand	47	1	41	1	26	1	27	1
Special agreements:								
Unmetered (largely public lighting)	1	—	1	—	1	—	1	—
Others	5	—	22	—	14	—	14	—
Other boards	—	—	—	—	—	—	—	—
Total	100	100	100	100	100	100	100	100

Source: EMEB, NEEB, SEEB and SWEB.

Notes: 1. Some domestic customers are on both 'preserved' and 'unrestricted' tariffs. These are included only once under 'total domestic' customers. The numbers are:

EMEB	41,186	41
NEEB	31,590	32
SEEB	55,678	56
SWEB	126,278	126

2. N/A = not applicable.

3. — = less than 0.5 per cent.

12.13 For *small non-domestic customers* (ie those on LV supply and with generally up to 50 kw of demand, or up to 40 kVA in SEEB) the demand-related yardstick is normally higher than for domestic customers, the difference being reflected in the premium paid in the first block of units charged each quarter; tariffs with this feature are called 'block' tariffs. (The difference and hence the premium is zero in NEEB and for most farm premises in SWEB. In SEEB, for simplicity, small non-domestic customers with less than 20 kVA of demand may opt for one of the domestic tariffs.) All small non-domestic customers may choose between the single unit charge of the unrestricted tariff and the Economy 7 tariff. Alternatively they may opt for an 'evening/weekend' tariff, introduced in April 1982, with a higher day rate but with an evening, night and weekend rate which lies between the unrestricted rate and the Economy 7 night rate; in EMEB they may also combine the lower evening and weekend rate with the Economy 7 night rate. Exceptionally, in order to provide a simpler evening/weekend option, SEEB will arrange for the winter demand, which determines the number of units included in the first block, to be recorded only within weekday daytime hours in return for an addition to the standing charge (see paragraph 12.17).

12.14 The unit rates of all domestic and small non-domestic tariffs were increased by 2 per cent from 1 April 1984 following a request by the Government and a recommendation by the Electricity Council. No serious price distortion has resulted but these tariffs do not now reflect yardsticks as precisely as the area boards would wish.

12.15 *Large non-domestic customers* (ie those on LV or HV supply and with generally more than 50 kw of demand, or more than 40 kVA in SEEB) are charged on more complex tariffs. In published LV or HV 'maximum demand' tariffs, the tariff components individually reflect BST capacity and unit charges, and area board capacity and operating and maintenance charges. Each of these charges may also reflect seasonal variations in costs. Some customers on LV supply with less than 50 kw of demand (or 40 kVA in SEEB) but with a relatively high load factor may find it beneficial to opt for the LV maximum demand tariff. Each area board also makes largely unpublished special agreements with a few customers. These agreements include special load management and contractual terms, within the BST, which provide incentives to large industrial customers to shed load at short notice on request.

12.16 The area boards are looking for new ways of expressing the complex cost messages contained in the BST. NEEB and SWEB introduced a published 'Time of Day' set of tariffs in 1983-84 to reflect as closely as possible the BST, without its load management terms, for customers who were willing and able to control their particular seasonal or daily load patterns. EMEB introduced its three rate evening/weekend Economy 7 tariff in April 1982 as a natural development to its policy to encourage time of day tariffs for LV supplies. As noted in Chapter 13 all the area boards are, to a greater or lesser extent, conducting or embarking on field trials of energy management devices for the domestic market.

Reflection of the customer-related yardsticks in the types of charge

12.17 Customer-related yardsticks are reflected in quarterly standing charges made to domestic customers, small non-domestic customers and, in NEEB, to large non-domestic customers on LV maximum demand tariffs; and in monthly standing or demand-related charges made to all other large non-domestic customers. As is the case for the yardsticks, (see paragraph 12.9), the standing charges increase progressively according to the complexity of the metering or to the costs of collection; for example there are surcharges on the domestic quarterly charge for the use of Economy 7 or pre-payment meters.

12.18 In 1983 Deloitte, Haskins and Sells reported on an investigation into standing charges for domestic customers, which they had undertaken at the request of the Electricity Council. They generally endorsed the charges but recommended some changes in application in order to reduce the scope of costs to be recovered by standing charges. Pending completion of a full review of the report before the tariff revision for 1984–85, quarterly standing charges for customers not using pre-payment meters have remained unchanged since 1 April 1982 and are not necessarily at the same proportion to their yardstick levels as is generally the case for other tariff elements (for example, see Table 12.2).

TABLE 12.2 Differences between tariff and yardstick levels for the domestic quarterly standing charge and the domestic unrestricted unit rate, 1984–85

	EMEB	NEEB	SEEB	SWEB
Quarterly standing charge				
(1) Tariff (£)	6.25	6.76	7.58	7.50
(2) Yardstick (£)	6.50	7.48	8.23	7.45
(1) as % of (2)	96.2	90.4	92.1	100.7
Unrestricted unit rate				
(1) Tariff (p)	5.09	5.17	5.11	5.28
(2) Yardstick (p)	5.07	5.05	5.23	5.02
(1) as % of (2)	100.4	102.4	97.7	105.2

Source: EMEB, NEEB, SEEB and SWEB.

Notes: (1) The quarterly standing charge is at a different proportion of its yardstick, compared with the unit rate, in each of the boards. Relevant factors are that each board:

- did not change its quarterly standing charge, pending publication of the report by Deloitte, Haskins and Sells (see paragraph 12.18), although it did reduce the corresponding yardstick in accordance with the report's recommendations;
- recovers a rebate on the quarterly standing charge (see paragraph 12.19) and a subsidy on the pre-payment meter surcharge (see paragraph 12.20) at least partly through the domestic unrestricted unit rate; and
- increased its unit rates by 2 per cent from 1 April 1984 following a request by Government and a recommendation by the Electricity Council (see paragraph 12.14) but did not alter its standing charges.

(2) The unit rates are based partly upon a fuel charge from the CEBG of £50.25 per tonne.

12.19 The area boards have also generally complied, since January 1983 with the Government's request that, until the next significant tariff review, the standing charge for domestic customers should not be larger than the amount for units consumed. EMEB, NEEB and SWEB interpreted this request as meaning that the standing charge should not form more than half of the bill presented to the customer. SEEB limited its maximum rebate such that the standing charge would not form more than half of what the total bill would otherwise have been, effectively halving the level of each rebate compared with that given generally by the other boards. NEEB did not comply with the request for those customers using Economy 7 or pre-payment meters. Rebates amounted in 1983–84 to around £0.9 million in EMEB, £0.8 million in NEEB, £0.8 million in SEEB, and £1 million in SWEB. They were recovered in

principle through all other quarterly tariff elements in EMEB, and through all domestic unit rates in the other three boards. They were equivalent to what could otherwise have been reductions in the average quarterly bill of 0.1 per cent in EMEB and in the domestic unit rates of 0.4 per cent in NEEB, 0.2 per cent in SEEB, and 0.5 per cent in SWEB.

12.20 The surcharge on the domestic quarterly standing charge for pre-payment meters has also been below its yardstick level for some time in each area board. In May 1979 the boards agreed to a policy of increasing the surcharge over a period of time to nearer its yardstick level, following an ESI review of the operation of the Code of Practice which was expected to lead to an increase in the number of pre-payment meters. Considerable progress was made in this direction during the subsequent four-year period, but when standing charge rebates were introduced in January 1983 the area boards considered it inappropriate to increase any standing charges. In April 1984 EMEB and SWEB increased the pre-payment standing charge by 2 per cent, in line with the unit rate increases noted in paragraph 12.14. The present differences of pre-payment surcharges from their yardstick levels together with the implied annual subsidies are shown in Table 12.3. The subsidies are recovered from all other tariffs, other than night rates, and all customers in EMEB, on a reasonable assumption from the domestic unrestricted unit rate in NEEB, and mainly from the domestic unrestricted unit rate in SEEB and SWEB. The boards told us that further developments depended upon the economic and public relations climate at the time of future general tariff revisions and upon the recommendations of the Electricity Council. The area consultative councils told us that they believed that subsidies on the surcharges should be removed.

TABLE 12.3 Quarterly surcharges and subsidies for pre-payment meter users, 1984-85

	EMEB	NEEB	SEEB	SWEB
Surcharge (£)	3.05	3.51	4.42	3.05
Yardstick level (£)	4.85	4.18	5.55	5.90
Estimated annual subsidy (£m)*	0.90	0.15	0.34	1.12
Implied increase in the domestic unrestricted tariff unit rate (%)	0.26	0.07	0.13	0.50

Source: EMEB, NEEB, SEEB, SWEB.

*Taking into account the number of customers using pre-payment meters at 31 March 1984. The number of pre-payment customers rose in 1983-84 by 6.7 per cent in EMEB, by 2.7 per cent in NEEB, by 4.0 per cent in SEEB and by 0.5 per cent in SWEB.

12.21 The costs of connecting domestic and small non-domestic customers to the mains supply system are recovered mainly through the minimum supply cost component of the standing charge, a nationally agreed standard connection charge, and a capital payment for requirements exceeding the normal-supply or connection standards of each area board; residual costs are met through unit charges. For larger non-domestic customers most area boards charge a capital contribution for connection based on the excess connection costs, if any, over a reference level of costs which varies in EMEB, NEEB and SEEB according to the size of load and the voltage of supply; and in SWEB according to the size of load, the load factor and the voltage of supply.

Reconciliation of income from standing charges with the relevant costs

12.22 With item (ii) of our terms of reference in mind, we suggested to the boards that they should include in their published accounts the revenues

obtained through standing charges from each tariff class of customer, and compare those revenues with the relevant costs (of which the costs of the reference activities are an important part) in order to help to show whether they were treating the different classes of customer fairly. At present no information of this kind appears in their accounts. In addition we asked whether the relevant costs could be classified under the main headings already used in their published accounts.

12.23 The boards provided us with figures for standing charge income obtained from each class of customer, albeit excluding the corresponding income from demand-related charges made to some large non-domestic customers who, as noted in paragraph 12.17, do not pay a standing charge. But the boards told us that they could not provide the relevant costs classified under their main cost headings because these could not be identified in their accounts for each class of customer; and that any such allocation would be difficult, arbitrary and probably meaningless. The boards pointed out that their standing charges were based initially on a number of customer-related yardsticks (see paragraph 12.9), some of which were not necessarily closely related to the relevant average costs which were subsequently incurred.

12.24 Departures from the board's normal tariff objectives of yardstick cost reflection may be mentioned in the annual reports. For example NEEB's 1981-82 report notes, for a new two-part domestic tariff structure, a reduction in the standing charge from the fully yardstick cost reflective level proposed by NEEB, following representation by the local consultative council, and a compensating increase in the unit rate. SEEB's and SWEB's 1983-84 reports note the cost of the standing charge rebate (see paragraph 12.19) and SWEB's report also notes the cost of a subsidy to the Isles of Scilly. The extent of deviation from yardstick cost reflection may be discussed with the consultative councils as part of the formal consultation process. The boards do not publish their yardstick levels, although the levels are subject to scrutiny periodically by the Electricity Council. The bases of the standing charge yardsticks formed part of the investigation and report by Deloitte, Haskins and Sells (see paragraph 12.18).

Advice to customers

12.25 Under section 37 of the Electricity Act 1947, each area board is required to publish its tariffs. The boards also offer customers, without additional charge, advice on tariff matters. For domestic customers the advice is mainly concerned with the choice between Economy 7 and the unrestricted tariff, and is supplied largely through leaflets distributed through the post or available in electricity shops. Verbal advice may also be given by staff in electricity shops or when visiting customers. In EMEB and SEEB the choice has been simplified through equating the day rate of the Economy 7 tariff to that of the unrestricted tariff. As noted in paragraph 12.12, NEEB and SWEB are closely watching the results of these decisions; in their view the simplification is at the expense of accurate cost reflection. In addition all boards have attempted to persuade all customers on preserved tariffs to transfer to Economy 7 because of its lower night time price.

12.26 There is a wider tariff choice for non-domestic customers. Large industrial customers are known and regularly visited by senior area board staff,

who will advise them on the efficient use of electricity in the light of the available tariffs and of their particular requirements. Multiple chain stores, offices and other works are also often advised, following requests from their head offices, of the most appropriate tariff for individual sites within the relevant board's area. Small non-domestic customers are notified by letter of major changes to tariff structures and reminded by leaflets accompanying accounts of the choice of tariffs facing them. They are also encouraged through the letters and leaflets to approach the board to discuss their use of energy in relation to the choice of tariffs.

12.27 The area boards told us that increases in the relative price of energy and a movement towards greater general cost control by industry and commerce had led to an increase in the need for advice on tariff matters over the last ten years or so; on the other hand the simplification of tariffs had reduced the need for advice in particular sectors in the last few years. EMEB told us that complaints about its advice on tariff selection were likely to stem from before April 1982 when it had 14 different tariffs for non-domestic quarterly customers. The choice between the 14 was complicated largely because some tariff elements were based on acreage or floor area assessment. The number has been reduced to 4 (see paragraphs 12.10 and 12.13).

12.28 In addition EMEB told us that some customers on maximum demand tariffs sometimes thought that they qualified for special load management terms (see paragraph 12.15). In EMEB these terms are generally applicable to customers using 5 or more megawatts. EMEB does not believe the terms are appropriate for customers using less than 5 megawatts for a variety of reasons including high metering costs. Nevertheless any customer using 3 or more megawatts who believes he can manage his load is treated considerately and is unlikely to be refused the terms. SEEB told us that it had a qualifying limit of 3 megawatts for the terms. NEEB and SWEB have no qualifying limit, treating each case on its merit, although SWEB said that 5 megawatts was generally a sensible limit bearing in mind for example the high metering costs.

12.29 Because the area boards do not make separate charges for their advice on tariffs, the cost of such advice is met from tariff revenue, principally through the customer-related yardsticks. We have dealt in Chapter 11 with the question whether the boards could usefully prepare estimates of the time and cost of providing customer advice, including advice on tariffs.

12.30 We asked for and received evidence from five companies acting as tariff consultants, offering advice in respect of electricity tariffs and other energy or fuel prices. Whereas it is difficult to determine with any degree of precision the extent of the demand for such services, the evidence we received from these companies suggested that, between them, they catered for the major part of their market.

12.31 Four of the companies told us that the advice given by the area boards in respect of electricity tariffs might differ from that given by the tariff consultants in at least five respects. These companies said that they would:

- (a) base their advice on their estimate of a client's future consumption as well as on his previous consumption for at least the last 12 months, whereas the area boards would generally base their advice only on his consumption over the past 12 months;
- (b) take a greater risk, their fee being usually based largely upon the net savings made by the client as a result of the advice;
- (c) offer less generalised advice, based upon the particular needs of each client, whereas the area boards could afford to do this only for their largest customers;
- (d) offer more accurate advice than that given by area board staff at district office level or below, who might not know for example the nature of imminent changes in tariff structures; and
- (e) provide advice in respect of all the area boards and other fuel suppliers which the client dealt with, whereas each area board will advise only in respect of its own tariffs.

The fifth company agreed with item (e) but dissented from the others, particularly (d). It told each of its potential clients that the area boards would give him excellent advice upon which to base his choice of tariffs. In addition all the companies aimed to reduce the time taken by their clients and the area boards over the paperwork necessary to effect changes between tariffs.

12.32 The companies also told us that demand for their services had been growing largely because of the rise in energy costs and increasing awareness that energy costs were controllable. The simplification of electricity tariffs may have lessened the growth in demand, although the importance of this factor was not easily assessed and the greater part of the tariff consultants' costs were incurred not in choosing between tariffs but in effecting a switch from one tariff to another.

Conclusion

12.33 We recognise the difficulties which area boards would face if asked to compare standing charge income from each class of customer with the relevant costs if these were classified under the main headings already used in their accounts. But we are concerned that customers are generally left in a position where they cannot tell whether standing charge revenues correspond at least fairly closely with the levels of the relevant costs. We believe that more should be done to explain to customers what the standing charges represent; to satisfy them regularly that the yardsticks are soundly based; and inform them of the periodic adjustments from yardstick levels which each board makes in order to set its standing charges (see paragraph 12.3). For each board there should be regular reports by its external auditor on the bases adopted both for the yardsticks and for the periodic adjustments. Those reports should be published.