

3 January 2024

Clodagh Goodman  
Utility Regulator  
Queens House  
14 Queen Street  
Belfast  
BT1 6ED

Dear Clodagh

firmus energy welcomes the opportunity to respond to the Utility Regulator's Consultation on the Approach to the Power NI Supply Price Control 2025.

The proposed approach to the Power NI Supply Price Control 2025 is very similar to that taken for firmus energy's current Supply Price Control (SPC23) running from 2023 to 2026.

Our response draws on the learnings from that Price Control process and the first completed year of SPC23.

**Q1. Do respondents agree with the proposed scope and coverage of the Power NI price control? If not, please explain what you believe the scope and coverage should be, providing suitable evidence to demonstrate.**

firmus energy agrees with the proposed scope and coverage for this Price Control period and agree that the Utility Regulator should continue to monitor the situation as competition develops and considering their statutory duties.

If Power NI's market share, by consumption and/or customer numbers, continues to diminish then the future merits of regulation in electricity supply should be considered, as compared to a free market with no regulated tariff.

**Q2. Do respondents agree that a duration of four years for the next Power NI price control is appropriate? If not, please explain what you consider the appropriate duration should be and why.**

firmus energy agrees that a duration of four years is appropriate, aligning with the Gas Supply Price Control's for firmus energy and SSE Airtricity.

Whilst transmission and distribution price controls are for a longer duration (6 years), we believe it is appropriate to set a shorter duration price control period for energy supply companies due to the more volatile market environment.

We agree that increasing the duration of the Power NI price control to four years increases the risk of cost forecasting errors however some of this risk is mitigated by the protection afforded by outturn inflation applied to determined values.

We would note that the latest price control determinations for the regulated retail gas businesses did not include any cost risk sharing mechanisms to reduce the impact of cost forecasting errors.

**Q3. Do respondents consider that the existing structure and form remains appropriate for the next Power NI price control? If not, please explain what you believe the structure and form should be.**

firmus energy agrees that the existing structure and form remains appropriate, aligning with the form and structure of the Gas Supply Price Control's for firmus energy and SSE Airtricity.

**Q4. Do respondents consider the approach outlined for assessing the Power NI OPEX is appropriate at this price review? If not, please explain what approach you consider UR should take to assessing OPEX and the reasons why.**

The approach for assessing Power NI's operational cost allowances appears appropriate and consistent with previous price controls for Power NI and the latest price control determinations for the regulated retail gas businesses.

We note that the Utility Regulator is considering moving two cost categories from the ex-ante  $S_t$  term to the  $E_t$  (pass through) term:

- 1) *Moving the provision for bad debt from an ex-ante allowance in the  $S_t$  term to an allowance for actual bad debt write-offs recovered through the  $E_t$  term.*

Whilst we agree that this move could address the risk of changing economic circumstances, this should be considered after a review of the actual bad debt levels for Power NI over the last number of years. These years have seen the lingering impacts of COVID-19, unprecedented energy commodity prices and levels of inflation and a cost-of-living crisis.

Power NI must be incentivised to manage and recover debts due, to avoid paying customers having to effectively subsidise those customers who do not pay.

- 2) *Moving Printing, Mailing, and Agency costs, from an ex-ante allowance in the  $S_t$  term to recovery through the  $E_t$  term based on actual costs or an ex-post volume driven allowance.*

Again, whilst we agree that this change would address the high level of variability in these costs from year to year, Power NI should continue to be incentivised to manage these costs and ensure customers are receiving value for money.

Determined unit allowance(s), trued-up for actual volumes (i.e., the ex-post volume driven allowance) should address the risk of variability and allow Power NI to recover appropriate costs.

**Q5. What are respondents' views on the proposed approach to establishing a margin for Power NI?**

In establishing an appropriate margin, it will be important to consider the size and scale of the Northern Ireland electricity market and the availability/cost of financing for a Supply business.

The ability to finance working capital is an important element, particularly given recent large wholesale cost fluctuations.

firmus energy's regulated gas supply margin was determined at 2% of allowable turnover. Having a margin that is a function of turnover would help with the management and financing of working capital, given the increases in costs (particularly electricity commodity costs) over the last number of years.

It will be vital that Power NI are provided with an appropriate allowance for margin, to ensure they can continue to deliver their essential services over the four years of the price control.

**Consumer Service**

As with providing an appropriate margin, it will be vital that Power NI receive the necessary allowances to implement and develop the Utility Regulator's 'Consumer Protection Programme'.

This is an essential programme for the protection of Northern Ireland consumers and, in particular, those consumers who are vulnerable or require additional help from their energy supplier.

Having the appropriate resources to deliver for these customers will benefit everyone and provide an added level of comfort for anyone interacting with Power NI.

**SMART metering**

An important area to consider in advance of any roll-out of SMART metering is the funding of that roll-out.

There will be a large initial capital outlay for the meters and technology/systems to support those meters. How will these necessary costs be recovered from consumers? If the electricity SMART metering programme is definitively happening, then should costs start to be recovered now to smooth their recovery and avoid large future tariff increases for consumers?

### **Equality Considerations**

The Utility Regulator has also requested any comments in relation to the overall equality impact of the proposals.

Protecting the vulnerable is fundamental in society. Energy supply companies will necessarily have different procedures for interacting with vulnerable customers. It will be essential to work closely with the Utility Regulator, advisory bodies, and other experts in vulnerability to ensure that the processes and procedures developed by supply companies are appropriate for interacting with vulnerable customers but also meet their responsibilities under equality legislation.

### **Price Control Timelines**

The timelines for any price control are always tight, for both the Authority and the regulated business. The published key milestones highlight the tight turnaround for producing the business plan information, determinations, and the responses to the consultations.

To provide the necessary preparation and review time for the Utility Regulator and Power NI, it is incumbent on both parties to try to stick to these timelines and communicate with each other if they foresee any slippage.

We would note that the timelines have already slipped with the extension to this consultation and would reiterate the need for good communication and transparency between the parties, to ensure as smooth a process as possible.

### **Conclusion**

We trust this response proves useful in helping to shape the approach to the Power NI Supply Price Control 2025 and we would be more than happy to further discuss any of the points raised.

Yours Sincerely,



Mark Stevenson  
Director of Regulation