

Review of Firmus Energy (Supply) Ltd Price Control Scope

UR Consultation
October 2017



About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Compliance and Network Operations, Finance and Network Assets, Wholesale, Retail and Consumer Protection and Corporate Affairs. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our Mission

Value and sustainability in energy and water.

Our Vision

We will make a difference for consumers by listening, innovating and leading.

Our Values

Be a best practice regulator: transparent, consistent, proportionate, accountable, and targeted.

Be a united team.

Be collaborative and co-operative.

Be professional.

Listen and explain.

Make a difference.

Act with integrity.

Abstract

This paper sets out for consultation the Utility Regulator's (UR) proposals to review the scope of the firmus price control in the Ten Towns area.

With firmus' market share in the EUC 2 sector below 50% in terms of both connections and consumption, this paper explores the option of reducing the scope of the supplier's price control to exclude EUC 2 customers within area.

Following responses to this consultation, a final decision will be taken by the UR and an Article 14 decision published. We anticipate the effective date of any such changes to be 1 April 2018.

Audience

Consumers and consumer groups; industry; and statutory bodies.

Consumer impact

This paper sets out the UR's proposals to reduce the scope of firmus' price control to exclude EUC 2 customers within the Ten Towns area. Should this be enacted, non-domestic customers consuming between 2,500 and 25,000 therms (73,200 and 732,000 kWh) per annum will no longer be covered by the price control and thus will be unable to avail of a regulated firmus tariff.

1. CONTEXT

Background

- 1.1 The principal objective of the Utility Regulator (UR) in relation to gas is “*to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland*” while having regard to “*the need to ensure a high level of protection of consumers of gas*”.
- 1.2 To help meet this objective we retain price controls on dominant, former monopoly, gas suppliers, which for Firmus Energy (Supply) Ltd (firmus) is in the Ten Towns area and for SSE Airtricity in the Greater Belfast Area.
- 1.3 The current price control for firmus runs from 1 January 2017 to 31 December 2019, and applies to customers using less than 25,000 therms (732,000 KWh) per annum.

About this document

- 1.4 The purpose of this document is to consult on the proposal to reduce the scope of firmus’ current price control in the Ten Towns area to exclude EUC 2 customers. This would mean that only EUC1 customers i.e. those domestic and non-domestic premises consuming less than 2,500 therms would remain covered by the control.

Responding to this consultation

- 1.5 The UR is keen to hear all stakeholder views on the proposals set out in this consultation paper.
- 1.6 Responses to this consultation should be forwarded to reach the UR on or before 4pm on 20 November 2017 to:

Colin Magee
The Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ED
Email: Colin.Magee@uregni.gov.uk

- 1.7 Your response to this consultation may be made public by the UR. If you do not wish your response or name made public, please state this clearly by marking the response as confidential. Any confidentiality disclaimer that is automatically produced by an organisation’s IT system or is included as a general statement in your fax or coversheet will be taken to apply only to

information in your response for which confidentiality has been specifically requested.

- 1.8 Information provided in response to this consultation, including personal information may be subject to publication or disclosure in accordance with the access to information regimes; these are primarily the Freedom of Information Act 2000 (FOIA) and the Data Protection Act 1998 (DPA). If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things with obligations of confidence.
- 1.9 In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Authority.
- 1.10 This document is available in accessible formats. Please contact: Colin Magee on 028 9031 6622 or colin.magee@uregni.gov.uk

2. BACKGROUND & ISSUES

- 2.1. In Northern Ireland there are three distinct distribution areas for natural gas. These are the Greater Belfast area, the Ten Towns area and the West area. The Greater Belfast area is served by Phoenix Natural Gas Ltd (PNGL) and the price-regulated supplier is SSE Airtricity. The Ten Towns area is served by firmus energy (Distribution) Ltd (firmus distribution) and the price-regulated supplier is firmus. The West area is served by SGN Natural Gas Ltd (SGN) and the price regulated supplier is SSE Airtricity.
- 2.2. The Ten Towns area covers a geographical region that includes Londonderry, Limavady, Coleraine (including Portstewart and Bushmills), Ballymoney, Ballymena (Broughshane), Antrim (including Ballyclare and Templepatrick), Craigavon (including Portadown and Lurgan), Banbridge, Newry (Warrenpoint) and Armagh (Tandragee).
- 2.3. The Ten Towns area is a relatively small market. There are currently approximately 34,550 gas connections (comprising of 1,183 medium and large I&C connections and 33,367 domestic and small I&C connections).
- 2.4. This market opened to competition in two stages with the market for large I&C users (those using above 25,000 therms per annum) opening in October 2012 and the market for domestic and small I&C customers opening in April 2015. Currently there are four active suppliers in the market, though firmus remains the sole supplier to domestic properties.
- 2.5. firmus is an integrated business that includes firmus energy (Distribution) Ltd which operates the distribution network in the Ten Towns area. The distribution company is also subject to price control.

Firmus Price Control

- 2.6. The current firmus price control applies to all those customers using less than 25,000 therms (732,000 kWh) per annum (typically domestic properties and small and medium sized businesses). The price control runs from 1 January 2017 to 31 December 2019.
- 2.7. The scope of the price control includes two distinct customer categories:
 - those using less than 2,500 therms (73,200 kWh), known as End User Category (EUC) 1, typically domestic and small commercial properties and
 - those using between 2,500 and 25,000 therms (73,200 and 732,000 kWh) per annum known as EUC 2, typically medium sized industrial and commercial properties
- 2.8. In the EUC 1 segment firmus remains dominant, holding 98.8% of the overall market

of domestic and small I&C properties, around 28,500 connections in total.

- 2.9. In the EUC 2 segment there are around 935 customers¹. In this segment firmus holds 38.8% of the market by connection numbers with three of the other suppliers holding between 14%-27% each. By consumption firmus holds 35% of the market as reflected in in Chart 1 below.

Chart 1: Market share in Greater Belfast EUC 2 category by connection numbers and consumption at Q2 2017

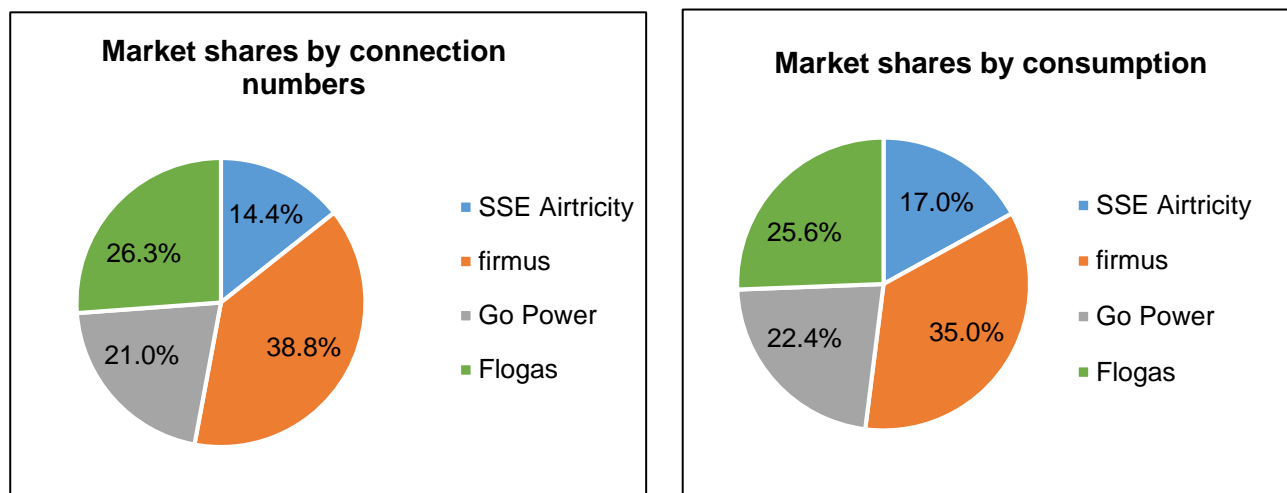
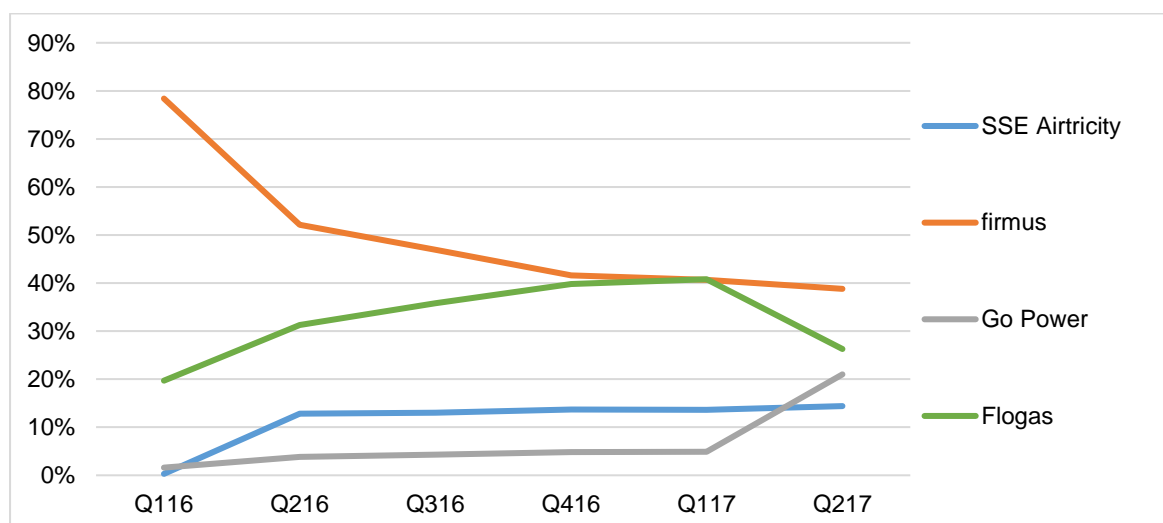


Chart 2 below shows the movement in market shares by consumption in the EUC 2 category in the Ten Towns area for the period Q1 2016 to Q2 2017. These movements clearly demonstrate that competition is active in this market as customers are switching and suppliers are gaining and losing market share. This point is illustrated by the fact firmus and Flogas had equal market shares in Q1 2017.

¹ There are 1,183 medium and large I&C connections in the Ten Towns area (a consumption >73,200 KWh), but there are 935 connections between 73,200KWh – 732,000 KWh.

Chart 2: Movement in market share by consumption in EUC 2 category in Ten Towns



2.10. firmus' market share has more than halved since Q1 2016 in the EUC 2 segment. Given that the supplier now holds less than 50% of the market share and there are three other active suppliers in this market, we propose reducing the scope of the firmus price control in the Ten Towns area to exclude EUC 2 customers. This proposal is based on the level of competition and customer engagement within the market, and the evidence that firmus no longer held a dominant position in this market.

2.11. This proposal is consistent with the treatment of:

- Power NI, as the UR removed the price control on that business in the 50-150MWh segment of the electricity market when its share of that segment of the market fell below 50%; and
- SSE Airtricity, as the UR removed the price control on that business in the EUC 2 segment of the gas market in Greater Belfast when its share of that segment of the market fell below 50%.

It should be noted however that removal of price controls in non-domestic markets when the incumbent has less than 50% market share does not necessarily mean that the same policy will be adopted for the domestic gas and electricity markets in any future market scenarios.

Q1. Do respondents agree that the price control for firmus in the Ten Towns area should no longer apply to I&C customers using more than 2,500 therms (73,200 kWh) per annum?

Timeframe and next steps

4.1 The UR welcomes stakeholder views on the proposals laid out within this document

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Belfast
BT1 6ED
Email: Colin.Magee@uregni.gov.uk