



RP7 Price Control Approach Document

The Consumer Council Response

18 May 2022

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Ambition for Consumers

NIE Networks has a laudable mission statement “*delivering a sustainable energy system for all*”. The RP7 Price Control business planning process and the subsequent delivery of the RP7 determined outcomes are a critical enabler in the achievement of that mission.

Therefore, we encourage NIE Networks and the Utility Regulator to be ambitious on behalf of consumers during this price control process and in doing so consider five factors:

- Engagement:** Given the scale of the change the Northern Ireland electricity network may have to undergo to facilitate decarbonisation, it is essential that consumers are provided the opportunity to engage in decisions affecting them. This consumer and stakeholder engagement should begin now and be embedded as part of NIE Network’s price control planning. The UR should consider whether adequate time has been allocated in the process plan to ensure detailed engagement can be undertaken, considered, and reflected in decision making.
- Empowerment:** NIE Networks will play a vital role in connecting low carbon technologies, managing network reinforcement, and facilitating smart meter rollout. Comprehensive information provision, advice, and engagement by NIE Networks will be key to enabling consumer behavioural change. NIE Networks should aim to empower all consumers to manage their energy demand and to avail of opportunities to access services, improve their energy efficiency, and/or adopt new technologies.
- Affordability:** The energy price crisis has served to reiterate the importance of the DfE Energy Strategy commitment to energy affordability. In this regard it is important that NIE Networks focus on efficient expenditure and service delivery. The energy transition must result in fair sharing of benefits and costs, while delivering security of supply.
- Digitalisation:** The digitalisation of energy networks will provide enhanced opportunities for consumers to engage with their network provider and manage their energy use. NIE Networks should embrace digitalisation to improve customer experience and standards of service in a cost-efficient manner. However, it is important to recognise the need to support consumers in vulnerable circumstances to ensure they are not disadvantaged by a lack of access to, or inability to use, new technologies.
- Vulnerability:** NIE Networks’ Networks for Net Zero Strategy recognised the risk the energy transition poses to vulnerable consumers, both in terms of affordability and engagement. RP7 is a vehicle to encourage NIE Networks to continue to make advances in their support for vulnerable customers.

The Consumer Council

The Consumer Council is a non-departmental public body (NDPB) established through the General Consumer Council (Northern Ireland) Order 1984. Our principal statutory duty is to promote and safeguard the interests of consumers in Northern Ireland.

The Consumer Council has specific statutory duties in relation to energy, postal services, transport, water and sewerage, food accessibility and financial services.

We are an insight-led evidence-based organisation:

- Providing consumers with expert advice and confidential guidance.
- Engaging with government, regulators and companies to influence public policy.
- Empowering consumers with the information and tools to build confidence and knowledge.
- Investigating and resolving consumer complaints under statutory and non-statutory functions.
- Undertaking best practice research to identify and quantify emerging risks to consumers.
- Campaigning for market reform as an advocate for consumer choice and protection.

Consumer Principles

Eight consumer principles, shown in Figure 1, help us assess regulatory decisions from a consumer perspective. They provide a framework to consider service design and delivery, consumer impact and how services should look and feel to the consumer.

Figure 1: Consumer Principles



Customer Engagement

The UR is clear that RP7 must be customer focussed and consumer engagement should feed into company priorities and outputs. It provides clear guidance regarding consumer engagement and stakeholder research. While this clarity is welcome, given the role NIE Networks will play in the energy transition, it is important that there is a step change in the level of consumer and stakeholder engagement undertaken by NIE Networks to ensure consumers needs are adequately understood and addressed.

Consumer Measures

The Consumer Council recognises the importance of the development of meaningful consumer measures to drive company performance. The uplift in NIE Networks' performance due to the introduction of unplanned customer minutes, lost targets and incentives for the RP6 price control is evidence of this.

Given that consumers can benefit from appropriately calibrated measures, targets, and incentives we would welcome the opportunity to work with the UR and NIE Networks to further scope the introduction of a customer service incentive mechanism for RP7 with symmetric rewards and penalties.

It is important that the customer-based outcomes and targets reflect not what NIE Networks (or indeed UR) think are appropriate ways to improve outcomes for customers, but that they actually reflect customers' views on their own priorities and desires regarding trade-offs (e.g. between price and service quality) – this is likely to include some high-level overall customer satisfaction measures and more detailed metrics on individual service outcomes, weighted by customer valuation of those outcomes.

It will be important for NIE Network's to show how it has delivered against these aspirations during RP7 and in particular, how the measures that they put in place will ensure that consumers' and particularly vulnerable consumers' priorities are properly prioritised.

Consumer Protection

The Consumer Council welcomes NIE Networks' commitment to adopt the themes of the UR Consumer Protection Programme, to deliver a reliable service to all its customers, and to provide extra support to customers with extra needs or vulnerabilities.

The suggestion that NIE Networks presents its proposals in respect of customers to the Consumer Vulnerability Working Group is also welcome as it will allow us and other bodies representing vulnerable consumers to understand NIE Networks' activities and challenge their progress in this area.

NI Energy Strategy

While the NI Energy Strategy sets out a target of Net Zero carbon by 2050, it is important from a consumer perspective that the consumer trade-offs between choices that will need to be taken to reach the target are seriously considered in as transparent as possible a

manner. For example, the UR requires the company's Business Plan to set out forecast scenarios in a way which can be understood by consumers. However, we would expect the Business Plan to show how NIE Networks have taken account of consumer priorities when assessing how they will plan for the different scenarios.

The UR emphasises the importance of whole-system planning solutions and it is important that NIE Networks takes an integrated approach to all of its activities so to consider the impacts on other parts of the energy system in Northern Ireland. This will help optimise consumer benefits along the value chain.

NIE Networks' role will evolve from a Distributed Network Operator (DNO) to a Distributed System Operator (DSO) actively managing the network at a local level to increase the flexibility, energy efficiency and resilience of the network. It is essential that NIE Networks provides a clear plan for DSO transition in its RP7 Business Plan.

In this regard, we note that UKPN has proposed to establish an independent DSO with stretching performance measures and an independent supervisory board that will deliver transparency of investment decision-making and ensure that the overall lowest cost solutions for customers are adopted.¹

UKPN's vision includes *"Establishing an independent DSO to maximise customer participation and efficiency in the network"* and *"Empowering our DSO to make decisions in the best interests of customers, having considered all potential solutions on a "level playing field basis"*.

Additionally, we observe with interest the effective nationalisation of national grid to a similar end².

Our research shows consumers have a desire for leadership in the energy transition. It is essential that NIE Networks demonstrates consumer focussed leadership in managing the transition to DSO.

Uncertainty – change control mechanisms

We accept there are certain areas where there is uncertainty over the costs and revenues that NIE Networks will face during the control period, and it is not in customers' interests to set a fixed price contract to cover areas where there is significant uncertainty.

While there is limited detail over exactly how the change control mechanisms will operate in the Proposed Approach document, we support the general principle of using uncertainty mechanisms to recover the costs of activities that cannot be included in the fixed-price regulatory base-settlement.

We believe that it is important that the companies show that the activities that are rewarded through the uncertainty mechanisms are properly supported by customer

¹ [UKPN-RIIO-ED2-Final-Business-Plan-Summary.pdf](#)

² [National Grid to be partly nationalised to help reach net zero targets | National Grid | The Guardian](#)

engagement and reflect appropriate customer priorities. When making the business case to UR for inclusion of particular uncertainty adjustments, the company should include evidence of customer need, benefit, or support for the activity.

Adjusting for Inflation

We support the move from RPI to CPIH which is in line with the proposals under GD23 and many other regulator's approaches. However, using the CPIH means that tariffs will be higher in the short term than using the RPI (although lower in the long term). Given the major concerns about energy price rises and the affordability of energy prices in the short term, this move will exacerbate, if only marginally, those pressures particularly for vulnerable customers. We therefore recommend that the UR should look at the impact of this change on vulnerable customers and consider ways to mitigate its impact, this could include considering a reprofiling of the charges across the control period.

When using the CPIH as a measure of inflation for the price control, UR should also take account of the fact that consumer prices in Northern Ireland tend to be around 2.3% lower than those for the UK as a whole³ and that therefore inflating company costs by CPIH measured for the UK may over-estimate the expected cost inflation for Northern Ireland. It may therefore be appropriate to include an offset to the CPIH indexation to recognise this systematic difference.

Business Plan Assessments

The UR sets out as one of its tests for NIE Networks' business plan 'Test 5: engaging customers, consumers and other stakeholders'. We believe that the test should go much further than simply engagement, it should ask how NIE Networks has acted on the output of that engagement to drive consumer values and priorities into its business planning process. It should also require NIE Networks to consider how it will ensure that its outputs support current and future customers and particularly how they support vulnerable customers.

It is also worth stating that asking companies to self-score their own performance may not prove beneficial unless it is ranked/benchmarked against the performance of similar companies or against the company's own performance areas.

Connection charging and tariff reform

We recognise that connection charging and tariff reform will not be directly addressed within the RP7 process. However, given the impact these reforms could have on consumer outcomes, we would welcome input into the ongoing engagement between UR, NIE Networks and DfE, referenced in the Approach Document, that aims to ensure a regime that is fit for purpose to facilitate new connections and meet Energy Strategy objectives.

Security of Supply

³<https://www.ons.gov.uk/economy/inflationandpriceindices/articles/relativeregionalconsumerpricelevelsuk/2016#:~:text=The%20main%20difference%20compared%20with,CPI%20measures%20the%20difference%20in>

While the Proposed Approach document addresses network resilience, it does not comment on security of supply. Given the current uncertainties over security of energy supply more generally caused by the Russian invasion of Ukraine, we request that the UR consider whether the RP7 price control should include measures to promote security of supply.

We would recommend considering the measures that National Grid have introduced⁴ to support security of supply including procuring power for the Contingency Balancing reserve and regularly reporting on the risks to supply in Northern Ireland from unusually cold weather, lower energy imports from other countries and alternative supply opportunities.

We welcome the UR's objectives on Network Resilience. However, given the UR suggests that areas where there is insufficient data to support robust analysis receive a "prudent but conservative" funding settlement until the company can provide robust information (paragraph 3.92) there is a risk that this provides a disincentive for the company to improve the quality of the data underpinning its plans since this could lead to more intense scrutiny from the UR.

Emergence of Smart Meters in Northern Ireland

The DfE's Energy Strategy commits to carrying out a Cost Benefit Analysis (CBA) on the introduction of Smart metering. While a CBA should help to inform the development of smart meters, we would recommend that a full impact assessment (IA) is carried out. This would assess not only the total costs and benefits of their introduction, but also the stakeholder groups who are impacted. For example, whether the costs and/or benefits fall on company shareholders or vulnerable customers should be assessed. This work could also include analysis of the risks of introduction if the outcomes are not as expected.

We agree that NIE Networks should provide its Business Plan based on the current approach to metering and that it is appropriate to have a reopener to deal with any additional costs from future Smart metering decisions. However, this should also take account of the cost savings that are likely to arise to NIE Networks, and perhaps also to consumers, because of the additional information available from smart meters.

Monitoring and Enforcement

An important part of the RP7 process is the monitoring plan which sets out NIE Network's programme for delivery over the RP7 period. It will be important that this includes consumer feedback on the outputs of the network as experienced by consumers (and particularly vulnerable consumers) in NIE Networks' annual progress report so that this can be tracked and benchmarked with consumer experience in similar industries.

⁴ <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/electricity-security-supply>

We look forward to continuing engagement with UR, NIE Networks and other key stakeholders throughout this price control period.

6. Contact Information

To discuss our response in more detail, please contact:

Lucy Cochrane
Senior Energy Policy Officer
E: lucy.cochrane@consumercouncil.org.uk
T: 028 9025 1645

The Consumer Council consents to this response being published.