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The Utility Regulator
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Dear Colin

SPC23: Price Control for SSE Airtricity Gas Supply (NI) Ltd

CONSULTATION RESPONSE BY ENERGY SAVING TRUST

Thank you for giving us the opportunity to respond to the consultation paper which sets out the Utility Regulator's approach to the supply price control for SSE Airtricity Gas Supply (NI) Ltd in Greater Belfast and West, due to come into effect on 1 April 2023 and run until 31 March 2027. We recognise that the key priority for the Utility Regulator (UR) is "to promote the development and maintenance of an efficient, economic and coordinated gas industry in Northern Ireland" while having regard to "the need to ensure a high level of protection of consumers of gas".

Energy Saving Trust is an independent organisation dedicated to promoting energy efficiency, low carbon transport and sustainable energy use. We aim to address the climate emergency and deliver the wider benefits of clean energy as we transition to net zero. We empower householders to make better choices, deliver transformative programmes for governments and support businesses with strategy, research, and assurance – enabling everyone to play their part in building a sustainable future. As Programme Administrator, on behalf of the Utility Regulator, of the Northern Ireland Sustainable Energy Programme (NISEP) we understand the complexities and energy efficiency challenges in Northern Ireland and, with our UK and international perspective, this means we can contribute ideas and solutions for the future.

Our response focuses on the key areas of the Energy Saving Trust's activities and related issues.

Scope and Duration

Energy Saving Trust recognise the dominance of SSE Airtricity in the EUC1 supplier category with 80% domestic market share in Greater Belfast and no domestic competition in the West. Clearly customer service in this case can only be provided through effective economic regulation, ensuring that GDNs operate efficiently whilst maintaining and improving levels of service. We would support retaining the scope of the control at 2,500 therms (73,200kWh) per annum and the proposed four-year price control period.

Regulated Tariff

Powers to control charges given to the Regulator within the supply licence procedures are welcome, and the calculation methodology with K factor and retrospective adjustment facilities appear on balance to be fair to both parties. Considering recent wholesale fluctuations, the bi-

annual tariff review and the trigger mechanism would appear appropriate and adequate measures for maintaining control and the tariff structure itself appears to have operated successfully for some considerable time.

Pass through and Supply Operating costs

Energy Saving Trust would support the proposition that network costs remain as pass through costs as these remain outside the control of the supplier and would agree that subject to clear non-cross-subsidisation between tariff and non-tariff sides of the business the Utility Regulators draft determination in terms of manpower, IT, IT Capex and bad debt recovery are appropriate in the circumstances.

Gas Costs and Energy Balancing

While there is limited detail over exactly how the Energy balancing mechanism will operate effectively to drive down costs for consumers, we support the general principle of the need for such a mechanism to recover the costs associated with buying gas within month as opposed to buying on the forward curve. It is important to note that SSE Airtricity's hedging strategy will be specific to it, and due to the specific timing of forward gas purchases the price paid will be different from other suppliers who will purchase different volumes at different time periods (and hence at different prices as the gas market moves daily). Hence, the overall wholesale cost of gas for SSE Airtricity will likely always differ somewhat from that of other gas suppliers even though they are purchasing from the same gas market. We would however argue that any balancing mechanism should incentivise effective procurement strategies as wholesale costs clearly form a major element (74%) of current energy expenditure and the cost-of-living crisis.

Margin and Reconciliation

In having undertaken along with external consultants a complete review of margin allowable, we would accept the Utility Regulator's proposed 2% margin together with the important K-factor to address under/over recovery. In addition, we recognise the benefits from retrospectively reviewing allowed costs to determine a reconciliation amount.

In Conclusion of the Utility Regulator's Review of the SSE Airtricity Gas Supply (NI) Ltd Maximum Average Price in Greater Belfast and West Area effective 1 July 2022, it was stated "SSE Airtricity's tariff will cost the typical domestic credit customer £1,243 per annum, which is 19.05% more than the GB Gas Price Cap average and 0.34% more than the Bord Gais standard gas tariff in Ireland" In light of this and following recent global events our view is that focused energy efficiency retrofitting must be a priority and the recent cost uncertainties especially the price of gas must help to drive the transition to low carbon fuels in Northern Ireland.

If you require any further information or would like to discuss the Energy Saving Trust response in further detail, please do not hesitate to contact me on 07715 368290

Meanwhile I trust that you find our response helpful.

Yours sincerely

Robert McCreery
Policy Officer
Energy Saving Trust
Northern Ireland