

ENERGY SAVING TRUST

Response to the Utility Regulator

Power NI

Supply Price Control 2025

January 2024

1. About Energy Saving Trust

Energy Saving Trust is an independent organisation dedicated to promoting energy efficiency, low carbon transport and sustainable energy use to address the climate emergency.

Our work focuses on reaching net zero targets by taking action to reduce energy consumption, installing new infrastructure and accelerating a move to sustainable, low carbon lifestyles.

A trusted, independent voice, we have over 25 years' sector experience. We provide leadership and expertise to deliver the benefits of achieving carbon reduction targets: warmer homes, cleaner air, healthier populations, a resilient economy and a stable climate.

We empower householders to make better choices, deliver transformative programmes for governments and support businesses and community groups with strategy, research and assurance – enabling everyone to play their part in building a sustainable future.

Some of the activities Energy Saving Trust engages on in Northern Ireland includes:

- Administering an £8m 'NI Sustainable Energy Programme' on behalf of the Utility Regulator
- Facilitating the Department for the Economy's (DfE's) access to HEED data to help inform their multi-year energy efficiency programme;
- Heat Pump Monitoring. Data analysed by Energy Saving Trust is compiled for and reported to the Utility regulator.
- Promoting Energy Efficiency to households throughout Northern Ireland, including leading the annual energy awareness campaign during Energy Saving Week.

- 1 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.

Yes

Households in Northern Ireland have endured an acute cost of energy crisis over the past two years, predominantly because of the over-reliance on volatile international fossil fuel markets, which underpin high energy prices as well as the escalating climate emergency. Given this and the progress towards decarbonisation that households should be making during the proposed four-year period, it is essential to have protective measures in place that control the cost of electricity for all households in Northern Ireland.

The question of whether continued regulation of a supplier through the maximum tariff that it can charge should be retained, primarily depends on whether the controls are effective in protecting the long and short-term interests of consumers of electricity. The Utility Regulator's ['Formal Review of Regulated Energy Tariffs'](#) (Sept. 2023) found that regulated electricity costs in Northern Ireland compare favourably to those in GB where consumers are protected by the 'Energy Price Cap'. This supports the continued regulation of dominant suppliers in Northern Ireland through the application of a maximum tariff.

With reference to a market share level of 50% being set as a threshold for consulting on the removal of a control on tariffs, we do not favour any express or implied commitment by the Utility Regulator or the Department for the Economy (DfE) indicating that this threshold will solely guide deregulation of price controls. Energy affordability and security are essential to the livelihoods and health of people. Therefore, unless there is substantial evidence of an increase in competition, which delivers significant affordability benefits to consumers (such as an increase in the range of energy tariffs, or type of product that are offered) we support the retention of controlled prices and some form of electricity price control being retained.

In this regard, we welcome additional reference to other measurements that could be used to determine whether price controls should be removed, such as the concentration analysis under the Herfindahl-Hirschman Index (HHI). For indicative purposes, if Power NI's market share falls to 40% and the remaining four suppliers each have a 15% share, the HHI will be 2,500 (indicating a highly concentrated market). Whilst market share and HHI do not reflect all of the complexities involved, this demonstrates that deregulation of energy tariffs should not automatically be considered appropriate in some instances where the market share falls below 50%.

- 2 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.

Yes

The proposed four-year duration for the price control from April 2025 to March 2029, represents a critical period for the decarbonisation of households. To meet legal obligations under the Climate Change Act, the Climate Change Committee advises that by 2030: (i) there are 33,000 annual heat pump installations, (ii) 1,582 homes are connected to district heating networks annually, (iii) all new heating appliances should be zero-carbon for off gas grid homes and (v) plug-in vehicles' share of new car sales must increase from the current 10% to 100% by 2030.

Minimising volatile electricity price fluctuations during the price control period will help to facilitate the significant increase in pace of the electrification of home heating and to support the affordability of adopting energy efficient technologies, such as heat pumps. The proposed period broadly aligns with the first interim greenhouse gas emissions targets set by the 'Climate Change Act (NI) 2022' for 2030 and we believe that it is in the interest of the Utility Regulator, Power NI and consumers to have a consistent approach to price control during this time. This will also reduce the regulatory burden of conducting shorter duration controls.

- 3 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.

Yes

Energy Saving Trust supports the continued use of the existing structure and form of the price control, provided it remains effective at encouraging competition and assisting with affordability of electricity for consumers.

The price control should be suitably flexible to allow the Utility Regulator to reopen aspects of the price control where there are material unexpected costs to consumers or to Power NI.

We welcome the requirement for Power NI to submit claims for additional cost items and to identify discontinued activities.

Whilst it is clearly in the interests of Power NI to control costs, where these are (i) determined during the implementation of the price control, are (ii) based on actual costs and / or (iii) are passed through to the consumer, it is important that Power NI have an obligation to demonstrate and provide evidence that costs incurred are reasonable. This includes the proportion of Renewable Obligation Certificate purchases Vs Buy-Out expenditure.

4 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.

Yes

Given unprecedentedly high electricity costs and the potential of new technology to play an important role to reduce electricity costs over this period, we welcome consideration of the cost risk sharing mechanism to mitigate against any forecasting errors over the four-year duration of the price control proposed to operate from 1 April 2025 (with the previous four price controls having all been over two years). This could encourage investment in research and development during a transitional period when innovation will be vital for energy security and affordability. However, careful consideration should be given to how the cost risk sharing ratio applied will fairly reflect costs as market conditions change.

The importance of increasing competition whilst facilitating innovation was recognised in Great Britain under the 'Energy Act 2023' (effective Oct. 2023), which was [welcomed by Ofgem](#) and introduced new obligations on the regulator to "enhance energy security, minimise cost to consumers and promote innovation" and also granted more direct strategic powers to Ofgem to create competition.

Given current volatility in the cost of energy, we support a proposed change to base bad debt on actual rather than forecast data. The cost of living and energy crisis has been ongoing for almost two years and unusually distorted historical bad debt write-offs during the previous three-year period cannot therefore be solely used to accurately forecast future bad debts. There may be relevant policy change over the period to 2029, that for instance relates to supporting affordability for consumers, prior to bad debts arising, similar to what is proposed under Ofgem's '[Consumer Standards Statutory Consultation \(August 2023\)](#)'. Such policy changes would further increase the risk of inaccuracies in forecasts of bad debt based on historical costs.

However, it is important that along with these costs being 'passed-through' to the consumer, there should also be proportionate regulation and protection measures in place for consumers, such as those being introduced in Great Britain. Helping to avoid bad debt in the first instance is also important. It is worth considering the '[Consumer Standards Decision \(Oct. 2023\)](#)' that have been introduced in Great Britain. This introduces new rules on suppliers to direct customers to appropriate advice relating to (i) debt prevention and (ii) improving energy efficiency and therefore affordability. In their response to the associated consultation, '[Thermal Storage UK](#)' emphasised the importance of high-quality energy efficiency advice being made available to support people to manage their energy bills and reduce the risk of future debt. We endorse this view and the proposed establishment of a tailored and consumer centric One Stop Shop in Northern Ireland, similar to 'Home Energy Scotland' that Energy Saving Trust deliver on behalf of the Scottish government, to help address the major energy challenges we face, including: energy affordability, energy security and reaching net zero greenhouse gas emissions.

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

It is important to ensure that the margin established in this price control is fair and reflects the affordability needs of consumers. Given the margin is applied as an ex-ante sum, careful consideration should be given to the fact that certain costs, including electricity commodity costs, have been unprecedentedly high over the past number of years.

As stated in our response to question 4 above, due to unusual market conditions, there may be a high risk of inaccuracies when using historical costs over the past three years to make certain future cost projections. We would recommend that independent expert advice is sought on the implications of recent trends. This includes those that report prices having been decreasing recently (15.4% reduction in the year to November 2023 according to the [ONS Consumer Price Index](#)) and the Consumer Price Index (CPIH) [rising by 4.2% in the 12 month to November 2023](#), down from 4.7% in October 2023.

We accept that significant review is again necessary, as this was last conducted for the 2014-2017 price control. However, we also support an approach that considers costs affecting the margin over a more protracted historical period than three years. This approach could for instance require increased scrutiny over forecast costs that are based on the past 3 years' data and show above inflationary increases over the 3-year period preceding this.

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