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The Consumer Council

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Northern Ireland Authority for Utility Regulation
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Re: NIE Energy Supply Price Control- proposals for Consultation

The Consumer Council welcomes the opportunity to respond to the consultation on the proposals for the NIE Energy Supply (NIEES) Price Control 2009/2010.

The most striking feature of the proposals is that this is not to be a full review price control, but is to be a one year extension of the last price control for the period 2000- 2005. This will be the third extension of the original price control and if the option to extend further to March 2011 is taken up, means there will be no full review for a period of 11 years.

The explanation given in 2007 for a two year extension to the price control, that there was a changing environment with the approach of the SEM and full domestic market opening, is no longer valid. The SEM and market opening are now 18 months old. NIEES have had the opportunity with other suppliers to evaluate the impact of the changes; meanwhile the Northern Ireland consumer has seen no discernible benefits from either.

The Consumer Council believes that there is an outstanding need for a full review of the NIEES price control and all the elements that go to make up the final regulated price tariff, apart from those elements that are subject to their own separate price control. Without a fundamental and thorough review of all of the elements that impact on the cost of electricity we cannot be sure that customers are getting a fair deal and the opportunity to make changes that can benefit consumers will be lost.

With the introduction of the SEM and full market opening, the electricity market in Northern Ireland has changed considerably over the last 11 years.

The significance of the cost of generation and the purchasing of energy has increased during the period that the current price control has been extended. In 2005, generation represented 48% of the final tariff to customers¹ by 2008 this had risen to 73%². Furthermore, the introduction of the SEM has brought into focus the role of hedging and the impact of currency exchange between the pound and the euro on energy purchasing.

In addition, the ability of NIEES to minimise its risk to investors by the 100 per cent pass through of energy costs to customers and by recovering any shortfall in its annual revenue from customers by using the 'k' factor mechanism, may be seen by some as inappropriate in a competitive environment.

The continuing impact of these developments may require a completely different form of price control to be used. A full review would allow for consideration of this. The Consumer Council does not support the price control being extended for another year as a further extension to the existing price control may simply be allowing an outmoded system to continue.

Beyond the fundamental issue of the form of the price control, a full review should look at issues that impact on the final tariff, and that are not necessarily costs within the direct control of NIEES. These should include how NIEES purchase electricity, the 'k' factor mechanism, the 100 per cent pass through of energy costs, the trigger mechanism for a price increase or reduction and the impact of a corporate social responsibility budget. All these issues which we believe require review lie outside of the current Price Review proposals.

We are aware that the Utility Regulator has established a Retail Competition Unit that will review many of the issues outside of this price control. The Utility Regulator has published a consultation on the draft work programme for this unit and has announced its intention to set up a stakeholder working group to inform its work.

The Consumer Council intends responding in full to the consultation on the work programme. However, in the context of the current consultation it is important to state that the work of the group should address all the matters that would be dealt with in a full review and ensure this is concluded as quickly as possible. Unfortunately the Retail Competition Unit Work Programme does not provide sufficient detail to satisfy us on either work streams or timescales that this will be the case. We seek further detail and assurance that the Unit will deliver outcomes on policy issues that will inform a full review of the price control by the end of the current proposed period.

Turning to specific elements of the consultation document itself, the Consumer Council have the following comments:

¹ NIE press release 12 December 2005.

² McIlldoon Report into the Oct 2008 NIE Energy price increase, December 2008.

Deregulation

The Consumer Council support the move towards greater competition in the Northern Ireland retail electricity market so long as it can be demonstrated that it does not raise the cost of electricity to customers and delivers real benefits to them. The Consumer Council has sought and received assurance from the Regulator that none of the costs of servicing the newly deregulated customers will fall on customers who remain regulated. So long as this remains the case, we are content that this will improve competition within the deregulated group.

Agency Costs

The Consumer Council understands that the reason for the increase in agency costs is due to the increased transaction costs for Keypad Meter payments. We note that under the proposed price control these increased costs will be borne by all customers regardless of their payment method.

The Consumer Council believes that any charges associated with different payment methods should be cost reflective for all customers. The NIEES license states under Condition 27(10), (Terms and Conditions of Electricity Supply Contracts):

Any difference in the charges for supply of electricity according to the choice of payment method shall be calculated by the Licensee on a reasonable basis to reflect the costs to the Licensee of such different payment methods.

Keypad customers already receive a discount from the standard Home Energy Rate of 2.5 per cent and having the additional associated costs of increased transactions spread across all customers, it appears that other customers are helping to pick up the bill.

It is argued that Keypad Meters provide savings by reducing debt, call handling and billing costs. A similar argument is used to justify the four per cent discount for Direct Debit customers.

We would like to see evidence to show the extent of savings compared with the costs of the standard credit payment method. If due to commercial confidentiality it is not possible for this evidence to be shared we would seek assurance from the Regulator that they are content that all charges or discounts imposed to different payment methods are cost reflective.

‘X’ factor

The Consumer Council notes that there has been no efficiency saving imposed on NIEES for two years and it is proposed that this continues, possibly for a further two years. We believe that by setting the ‘x’ factor at zero, the Regulator is not stretching the company sufficiently to make efficiency savings. Whilst the company has an incentive to make efficiencies

in as far as it can retain for its shareholders any efficiency gains, there is no penalty if it fails to achieve any efficiencies.

The Regulator states in the consultation document that NIEES has not yet reached the stage where efficiency gains will be difficult. Indeed the Regulator acknowledges that under the same zero 'x factor' the company has made efficiency gains over the current price control period.

Not only must these efficiency gains be captured in the proposed price control, but an 'x' factor set that allows customers as well as shareholders to benefit immediately from efficiencies made.

I trust you find the above information useful, and welcome any clarification you can provide on the above issues. If you wish to discuss any aspect of this response please do not hesitate to contact me.

Yours Sincerely

Richard Williams
Senior Consumer Affairs Officer