



The Consumer Council

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**Paul Harland
Gas Distribution
Utility Regulator
Queens House
14 Queen Street
BELFAST
BT1 6ER**

14 January 2013

Dear Paul

**Re: Price Control form Northern Ireland's Gas Distribution
Networks GD14- Consultation on overall approach**

The Consumer Council welcomes the opportunity to respond to this consultation.

The Consumer Council is an independent consumer organisation, working to bring about change to benefit Northern Ireland (NI) consumers. Our aim is to make the consumer voice heard and make it count.

We have a statutory remit to *promote and safeguard the interests of* consumers in NI and we have specific functions in relation to energy, water, transport and food (the Consumer Council and the Food Standards Agency (FSA) have a memorandum of understanding and the Council's strategic focus on food is primarily in relation to food prices and customer experience). These include considering consumer complaints and enquiries, carrying out research and educating and informing consumers.

The Consumer Council is also a designated body for the purposes of supercomplaints, which means that we can refer any consumer affairs goods

and services issue to the Office of Fair Trading, where we feel that the market may be harming consumers' best interests.

In taking forward our broad statutory remit we are informed by and representative of consumers in NI. We work to bring about change to benefit consumers by making their voice heard and making it count. To represent consumers in the best way we can, we listen to them and produce robust evidence to put their priorities at the heart of all we do.

Introduction

The cost of the gas networks accounts for around 30 per cent of the final bill and therefore the network Price Controls of firmus and PNG are important consumer issues. Overall we approve of the approach and timetable proposed by the Regulator.

We are pleased that the Regulator is moving to an earlier and more transparent deliberation on its approach to the Price Controls and we particularly welcome the commitment by the Regulator to consumer engagement. We believe that the key to a successful network Price Control is that it reflects the needs and priorities of consumers within its outputs. We look forward to working with the Regulator and stakeholders during the period of this Price Control to ensure that the consumer voice is heard and reflected in the final decisions made.

Consumer engagement needs to be started as early as possible in the price control process. Ideally this would mean consumer engagement with stakeholders prior to and during the preparation of the companies' business plans. We would therefore welcome the opportunity to discuss with the Regulator how consumers can be engaged even earlier in future energy price controls.

We note that, at point 1.8 the consultation states that:

‘Our task essentially consists of creating a framework within which, in return for providing monopoly services to an acceptable quality, the company receives a reasonable assurance of a revenue stream in future years that will cover its costs.’

Our view is that in defining the task of the Regulator in price controls the importance of reflecting and delivering consumer expectations must be made clear. Whilst the main duty of the Regulator in gas is to promote the development and maintenance of an economic, efficient and co-ordinated gas industry, it also has a duty to protect the interests of gas consumers with regard to price and quality of service.

Business Plan and outcomes

In our responses to previous Price Controls we have drawn attention to the work undertaken by the GB Regulator, Ofgem, in recent years to further develop its model for regulating Utilities with a specific focus on benefits to the consumer. The resulting RIIO model¹, has seen a greater emphasis on outputs and incentives that are aimed at achieving them, in order to facilitate the required investment at the lowest possible cost to the consumer. The framework mimics the competitive markets by rewarding companies that deliver on the outputs valued by consumers, and penalising those that don't.

The RIIO approach describes six main output categories:

- Environment;
- Reliability;

¹ <http://www.ofgem.gov.uk/Networks/rpix20/ConsultDocs/Documents1/RIIO%20handbook.pdf>

- Connections;
- Customer Satisfaction;
- Safety; and
- Social Obligations.

Under the RIIO model a heavy emphasis is placed on the Business Plan submitted by the network company. The Business Plan requires the company to demonstrate that its plans are designed to deliver outputs that are based on genuine and ongoing engagement with consumer representatives and other stakeholders. This consumer engagement is as much a responsibility of the company to undertake as it is of the Regulator.

We note that the current consultation raises the importance of Business Plans in the Price Control process. Whilst we welcome the opportunity the Regulator proposes to work with the it and the companies, the opportunity to influence the companies' Business Plans has been and gone.

We would propose that in future energy Price Controls consumer engagement is factored in at the very start of the process. This is the case in the regulation of water in NI where consumers have benefitted from engagement between the Regulator and the Consumer Council at the earliest possible opportunity. This has allowed consumer priorities to be reflected in NI Water's Price Control outputs.

It is not just consumers who need to be engaged at the outset of the Price Control process. The outcomes of the Price Control must also deliver the strategic, political and economic outcomes required by the NI Government and other stakeholders to address fuel poverty, energy efficiency, security of supply, etc.

Information

The quality and quantity of information available to the Regulator, both from the company and elsewhere is very important. In the recent NIE 'RP5' Price Control, the Regulator and NIE were unable to agree on material data central to the determination. This led to a divergence of £380m or 50 per cent in the estimation of the capex required. Uncertainty such as this should not exist in a Price Control process, especially with the model in NI so heavily concentrated on economic regulation at the expense of a focus on customer, environmental and safety aspects.

The consultation anticipates at 4.5 and 4.20 that an information gap may occur and that a lack of time may require some issues to not be addressed. The Consultation states that where there is insufficient information available to make an informed determination, some areas may be subject to 'reopeners'. This is extremely unsatisfactory as it creates uncertainty and a lack of confidence in the Price Control process for consumers, the company and investors alike. Therefore every effort must be made to ensure the availability of quality information, such as using a recognised asset management tool like PAS55.

Main areas for consideration

We note the list of main areas for consideration and consider that capex incentives and tendering processes, and connection incentives are particularly important.

We believe that utility price controls need to become more innovative and consumer oriented than they currently are. There are a number of innovative items that should feature in the list and we would be happy to discuss these further with the Regulator and the companies during the Price Control process. These are:

- Customer Service Standards, including Guaranteed Service Standards;
- Environmental and sustainability targets;
- The implementation costs of IME3;
- An infill strategy for existing licence areas;
- Incentives for the Fuel Poor to convert to gas; and
- The introduction of industry recognised asset and information management systems.

Conclusion

We welcome the recognition by the Regulator of the key role that the Consumer Council plays in the Price Control process. We look forward to discussing with the Regulator as soon as possible the material role we will play in representing consumers throughout these Price Controls.

If you wish to discuss the attached in more detail, please do not hesitate to contact Richard Williams, 028 9067 4895, rwilliams@consumercouncil.org.uk.

Yours sincerely

Marian Cree
Head of Energy