

12th April 2010

Elena Ardines
Utility Regulator
Queen's House
10-14 Queen Street
Belfast
BT1 6ED

Dear Elena

Re: Assisting with Affordability Concerns for Vulnerable Energy Consumers

Thank you for providing firmus energy with this opportunity to respond to the above consultation whereby we understand that the Utility Regulator is seeking to contribute to the debate on the options for the introduction of extra help for vulnerable customers re: their energy costs.

We understand that the Utility Regulator may be able to facilitate some of the technical means of action but only should it be granted the required statutory remit to do so.

We understand that the Utility Regulator's office, in performing its duties should have regard to the interests of vulnerable customers, including those who are disabled or chronically sick, of pensionable age, on low incomes and in the case of electricity consumers, those living in rural areas.

We recognise that this paper is stage 1 of a proposed 3 stage process, whereby initially the broad policy questions have been proposed. firmus energy is grateful to be able to respond to these and we can confirm that as an integrated utility provider in Northern Ireland we are keen to be involved in any future debate regarding best options going forward and to propose ways to implement any selected option.

Recognising that the focus of the FPTF to date has been on fuel poverty, and that the recognised 3 key influencing factors in relation to fuel poverty are energy costs, energy efficiency and income levels, we are keen to provide our views on fuel poverty and ways to address the plight that is facing many thousands of households across Northern Ireland.

In recognising these 3 key influencing factors on fuel poverty we have outlined the steps that firmus energy specifically and natural gas generally has played in helping to reduce the prevalence of fuel poverty.

We have listed these below;

1. Energy costs:

- a. firmus energy continues to offer our customers the cheapest gas price in the UK – firmus energy tariff 3.2p/kWh, Phoenix – 3.42p/kWh, British Gas – 3.64p/kWh.
- b. We continue to offer significant savings verses kerosene. A typical 3 bedroom home using 15,262 per annum pays £489. Conversely the same household based on March 2010 average oil figures would pay £684 and over the last 9 months would pay £604 – a saving of £115 per annum.
- c. firmus energy continues to offer a “Cheaper than oil” price guarantee whereby our customers can be reassured that the price we offer is cheaper than the heavy carbon alternative – namely oil.
- d. That said, the natural gas market in Northern Ireland has little if any control over wholesale gas prices.
- e. We fervently believe that the Northern Ireland oil industry needs to be regulated, something which the Northern Ireland Oil Federation has publicly supported. Currently there is no regulation of the non net bound home heating fuels and no statutory remit to provide affordability support for vulnerable customers. Given that oil currently dominates the home heating market, we believe this to be a significant omission.

2. Energy efficiency:

- a. We provide energy efficiency advice on the rear of our gas bills.
- b. We work closely with the EST’s advice centres to promote energy efficiency awareness and we send new customers a copy of the EST’s energy efficiency booklet as part of our customer welcome pack.
- c. In partnership with Gas Safe, formerly CORGI, we encourage customers to install high efficiency (90%+) and to fit heating controls and time clocks to systems and appliances.
- d. We continue to work with Heatsmart to offer energy efficiency advice to residential customers who require that little bit of extra help to manage their controls and how to operate their new natural gas heating system.

3. Income levels:

- a. It is of concern to us that the little movement has been seen to date in terms of regulating the heating oil sector. firmus energy is of the view that this needs to be challenged and indeed fully considered by Government and policy makers. Whilst the oil industry may not be a position for its assets business to be price controlled, we fail to see why, as a first step, statutory obligations could not be placed on non-net bound operators to provide energy efficiency advice as well as a consistent approach to payment methods across the industry.

Only by regulating the oil industry will the steps needed to combat different oil prices across different regions of Northern Ireland be addressed, including the offer of flexible payments arrangements to those who are more exposed to the plight of fuel poverty.

- b. We note that the Utility Regulator does not currently have a statutory remit to address fuel poverty. This needs to change and we believe, that the Utility Regulator or the Consumer Council could be charged with addressing fuel poverty supported by the likes of NEA, the fuel poverty charity.
- c. It must be recognised that an important factor in fuel poverty in NI is the disparity in income levels between here and other parts of the United Kingdom. Whilst it is impossible for utility companies to address such an issue, we welcome recent developments brought about by the Utility Regulator which has removed the limit of prepayment meter that can be installed by the Network Operators. Not only do prepayment meters offer households the opportunity to pay for their fuel in small, weekly amounts in line with their income / benefits but, unlike other parts of the UK, Northern Ireland gas customers pay the same tariff as direct debit customers.

We note that the Utility Regulator, whilst limited by statute, is keen to understand the views regarding the following;

Q1. Are there any additional key context issues that should be noted?

firmus energy believes that suppliers of the non net bound home heating fuels such as heating oil, coal and LPG should have legal obligations to provide affordability support and to provide special assistance and services to their vulnerable customers. We do not believe that the voluntary agreements between DETI and the coal, oil, biomass sectors go far enough to provide reasonable support to vulnerable groups and we believe these support services should be harmonised across all sectors.

Q2. Comments are welcome on the potential and appropriateness for an expanded statutory remit for the Utility Regulator to allow regulatory mechanisms to potentially tackle affordability issues?

firmus energy would support the potential for an extended statutory remit for the Utility Regulator to put in place regulatory mechanisms to tackle affordability issues so long as the gas, electricity, oil, coal and LPG sectors are all covered to ensure consistency of services for all consumers and a level playing field for the energy sector in Northern Ireland.

Q3. Comments are welcome on the suggested staged approach to affordability policy / scheme development?

We understand that this consultation is the first stage in identifying a number of key questions which can be addressed in relation to energy affordability. We recognise that these issues need to be debated and decided upon before stage 2, whereupon further analysis will be undertaken and options analysed. We understand stage 3 is dependent upon political direction, delivery mechanisms and the appropriate legal instruments being in place and we agree with this approach.

Q4. Have we identified the appropriate key stage 1 questions / issues?

We would like to understand views on whether to entire energy sector in Northern Ireland will be considered. Should this simply be electricity and gas focused piece of work, we feel that it will have failed to address the majority of issues for households using oil, if we are to consider tackling fuel poverty and its root causes “head on”.

Q5. Comments are welcome on “scope and purpose” questions / issues. Should any policy intervention be aimed at affordable warmth in the round or at a more limited problem such as electricity affordability and anxiety about bills?

firmus energy believes that policy intervention should be aimed at affordable warmth. We see the issue of addressing anxiety about bills as “outside scope”.

Q6. Comments are welcome on the issues raised above in relation to the intended target size and scope of any intervention, size of fund required to deliver this and impact on “paying” customers?

We are not in a position to comment on the intended target size, at present.

However, given the “fuel affordability” benefits of natural gas as against oil, electricity, solid fuel and LPG, we would not recommend a solution which could impact on the development of the natural gas industry. Clearly any mechanism which seeks to discount fuel for one sector of the population, would need to be paid for by all other consumers. We are concerned at the impact on such a decision on the price of natural gas versus other fuels for small business and ‘non-fuel poor’ households, thereby reducing the price advantage of gas and acting as a disincentive for future conversions from oil etc. to natural gas.

Additionally, given that over 70% of our natural gas customers already use a prepayment meter, we would argue that the targeting of these meters could be used as a way of helping to increase fuel affordability rather than necessitating a new gas affordability tariff for consumers.

Q7. Comments are welcome on policy funding questions / issues. In the absence of additional new government funding, should any intervention on energy bills be paid for by all customers or a subset of customers?

See response to question 6 above. However, there could be merit in considering some form of levy being placed on all electricity customers and being offered to “vulnerable” customers – namely those that are eligible for electricity vulnerable care schemes.

Q8. Comments are welcome on the issue of which customers should be targeted for help (and why) and to what extent per annum?

We recognise from the 2006 House Condition Survey that 226,000 (34%) of NI households suffer from fuel poverty. As to who should be targeted for help, we would say that there are a numbers of issues that should be considered;

- Finalise who pays – Government or consumers. If consumers, who?
- Agree who ultimately benefits
- Who will monitor the success of any initiative
- What do we do about those on “near benefits”
- Would increasing domestic supply competition as a policy concept be a better instrument for reducing customer’s bills?
- Do we not need to see an extension of Warms Homes Plus rather than tackle running cost issues?

Q9. Can respondents identify a data set that would enable us to assess the risk to different groups of equating “high user” with “non vulnerable”?

We are currently not in a position to respond to this question.

Q10. What other household characteristics are associated with higher or lower electricity consumption?

We are currently not in a position to respond to this question.

Q11. Respondents’ views are welcome on the issue raised in relation to an appropriate mechanism for the collection of funds.

See response to Q7 above.

Q12. Views are welcome on need for enhanced energy efficiency advice for vulnerable households including size, resourcing and best- delivery options.

We feel current arrangement within EST’s advice centres in Northern Ireland are appropriate. However, resource would need to be considered if/should some form of fund advice would need to be offered to households.

Q13. Views are sought on the relative merits and disadvantages of helping the poorest energy consumers through a fund or tariff.

We believe that, in a growing embryonic market like our own, any mechanism whereby the few may pay considerably more to bring down costs for the many, is neither equitable nor indeed helpful for the development of the gas market in Northern Ireland. Given natural gas’ proven benefits in increasing energy efficiency and lowering fuel bills, as well as the extensive use of prepayment meters in Northern Ireland, we would argue that policy should be directed to

increasing domestic gas conversions rather than focussing on a new affordability tariff for gas consumers.

Q14. Respondents' views are welcome on the issues raised in relation to identifying eligible customers.

We are currently not in a position to respond to this question.

Q15. We invite comments on an appropriate mechanism and potential costs for the disbursement of funds to eligible households.

We are currently not in a position to respond to this question.

Q16. We welcome respondent's views on the potential impact of affordability schemes on the retail market in Northern Ireland and potential for competition.

We are currently not in a position to respond to this question.

Q17. Comments are sought on the appropriateness of creating exit provisions in a scheme and on how these might be designed

We are currently not in a position to respond to this question.

Q18. Comments are sought on the proposed assessment criteria for any scheme.

We are currently not in a position to respond to this question.

Should you require any further information, please feel free to contact me to discuss.

Yours sincerely

Michael

Michael Scott

Head of Business Development