



**Price Control for SSE Airtricity Gas Supply (NI) Ltd and Firmus Energy
(Supply) Ltd
August 2016**

1 Introduction

- 1.1 The Consumer Council is a non-departmental public body (NDPB) established through the General Consumer Council (Northern Ireland) Order 1984. Our principal statutory duty is to promote and safeguard the interests of consumers in Northern Ireland (NI).
- 1.2 The Consumer Council has specific statutory duties in relation to energy, postal services, transport, and water and sewerage. These include considering consumer complaints and enquiries, carrying out research and educating and informing consumers.

2 Executive Summary

- 2.1 The Consumer Council supports the promotion and ongoing development of natural gas in NI. Natural gas offers consumers a choice of fuel that has been cheaper than oil for a sustained period of time¹, provides consumer protection through its regulatory framework, is cleaner than other fossil fuels and provides payment methods that help consumers manage their spending on energy.
- 2.2 The SPC17 Price Control is an opportunity for the Utility Regulator (the Regulator) to continue to safeguard consumers and promote the development and maintenance of an efficient, economic and

¹ Over the last 5 years, home heating oil has been on average 6.17% more expensive than natural gas. www.phoenixnaturalgas.com/why-natural-gas/gas-vs-oil/.

co-ordinated gas industry in NI. The interests of consumers must be at the heart of the Final Determination.

2.3 We acknowledge the work carried out by the Regulator, SSE Airtricity and Firmus Energy in delivering this price control draft determination. The main points in our response are:

- We agree that the Greater Belfast EUC2 category is ready for deregulation. We believe however that continued work is required to promote competition within this particular market to help businesses get the most out of competition;
- We would like the Regulator to identify best practice organisations, if necessary outside NI, in order to benchmark performance; and
- We have concerns about the proposal to increase the margin level for SSE Airtricity and Firmus Energy to 2% and believe the current level of 1.5% is sufficient.

3 Consumer Context

3.1 Despite the welcome drop in domestic energy prices since 2015, fuel poverty in NI remains at the highest level in the UK². Consumer Council research³ in June 2016 showed home energy prices remain the biggest concern for the majority (29%) of consumers.

² Annual Fuel Poverty Statistics Report, DECC, 2015 shows that 42% of households in NI are experiencing fuel poverty.

³ MillwardBrown Ulster: Consumer Council NI Consumer Outlook Tracking – June 2016.

3.2 NI discretionary household income remains the lowest in the UK - £103 per week compared to a UK average of £201 per week⁴. The overall employment rate in NI is five percentage points lower than in Great Britain (GB). For some groups, the gap is much wider – 15 percentage points lower for disabled people in NI compared with GB, 12 each for lone parents and 16-24 year olds⁵.

4 Scope and Duration

4.1 It is a concern for the Consumer Council that switching in the End User Category 1 (EUC1) for Greater Belfast has seen little movement since Q1 2014. We are however encouraged at the success of switching in the End User Category 2 (EUC2) in which SSE Airtricity now holds less than 50% market share. In light of this market share we agree with the Regulator’s proposal to remove the EUC2 category from the scope of the SSE Airtricity price control. We would stipulate however our belief that this market sector still requires support and education about the availability and benefits of competition.

4.2 As Firmus Energy remains the dominant supplier in the Ten Towns area we agree that the price control should remain as is for both EUC1 and EUC 2 categories up to 25,000 therms per annum.

5 The Regulated Tariff

⁴ Asda Income Tracker Report June 2016.

⁵ Joseph Rowntree Foundation, Monitoring Poverty and Social Exclusion in Northern Ireland 2016.

5.1 The cost of energy is a primary concern for NI consumers. We strongly support proposals for regular tariff reviews and a trigger mechanism to closely monitor the tariff and maintain the k factor at a minimal level. Customers want pricing consistency must be protected from potential tariff volatility. Undoubtedly the trigger mechanism adds additional consumer protection from this risk and we agree with the 5% level.

6 Supply Operating Costs

Manpower Costs – SSE Airtricity

6.1 The Regulator outlines its belief that SSE Airtricity has a high staffing level following a benchmarking exercise against both Firmus Energy and Power NI. We acknowledge that these organisations are easily accessible to the Regulator; however in a similar vein to its approach in the GD17 Gas Distribution price control, we would welcome comparison to industry best practice from other similar companies operating in Great Britain or elsewhere.

6.2 The Consumer Council welcomes SSE Airtricity's intention to increase its opening hours. This will undoubtedly benefit SSE Airtricity customers. We acknowledge that SSE Airtricity and the Regulator have differing views on the resources required to meet this objective. We would strongly encourage liaison between SSE Airtricity and UR to ensure the aim of increased opening hours is sufficiently resourced.

6.3 The “SSE rewards scheme” is a welcome incentive scheme for SSE Airtricity customers. The Consumer Council understands the Regulator’s assertion that the cost of managing this scheme is not related to the cost of supplying gas and therefore not allowed within the price control. We encourage SSE Airtricity however to continue supporting the scheme through other means, for the benefit of its customers.

Manpower Costs – Firmus Energy

6.4 The Consumer Council is in agreement with the Regulator’s view that Firmus Energy’s submission for £20k towards I&C client entertainment costs should not be allowed, either as manpower costs or advertising costs. As stated within the draft determination, retaining customers provides reward for Firmus Energy through the margin from each customer. The Consumer Council however would welcome a creative focus from Firmus Energy to stimulate interest in the Greater Belfast domestic market, where switching levels have stagnated.

Operations Costs – SSE Airtricity

6.5 We very much welcome SSE Airtricity’s proposed projects that will clearly benefit consumers such as the introduction of a web-chat facility and improvements to its telephone systems. Aligned with SSE Airtricity’s intention to increase its call centre opening hours, these customer service improvements are to be commended. We

acknowledge that Gernserv recognises the merit in these projects and the potential customer service benefits they will deliver.

- 6.6 We note that SSE Airtricity requested the allocation of IT costs in year one of the price control and that the Regulator has declined this request, choosing to spread the allowance over three years. This is a position the Consumer Council would support in order to ensure consistency in prices and protect consumers from volatility.

Operations Costs – Firmus Energy

- 6.7 The Consumer Council supports Firmus Energy’s submission for an increase in IT costs to make significant improvements to its billing system. Gernserv has agreed that the submission is sufficient for approval and we are pleased that consumers will benefit from these improvements. We accept the Regulator’s rationale to apportion costs based on customer numbers rather than an equal split between the Ten Towns and Belfast markets.
- 6.8 On a consistent basis with SSE Airtricity, we support the allocation of IT costs over the three year period to ensure consistency in prices and protect consumers from volatility.
- 6.9 The Consumer Council understands that a licence modification will enable cost recovery in the event of a Supplier of Last Resort (SOLR) scenario. As such we disagree with Firmus Energy’s

submission for £20k to cover SOLR for each year of the price control and we support the Regulator's position on this matter.

7 Gas to the West

- 7.1 The Consumer Council notes that SSE Airtricity has been appointed as the commissioning/default supplier within the West area. As such we understand the Regulator's rationale in aligning the scope of the price control in the West to that of Greater Belfast where SSE Airtricity is also the commissioning/default supplier.
- 7.2 We note that SSE Airtricity forecasts that by 2019, 1,500 domestic and 87 I&C properties will be connected which is more conservative than the numbers forecast by Scotia Gas Networks. Nonetheless we are of the view that whilst the West area does require a targeted approach to maximise connections, we are mindful that the current lower cost of home heating oil and the rural catchment area of the West must be considered in the early deliverables of the project.
- 7.3 The Regulator has disallowed SSE Airtricity's submission of £50k for brand awareness and advertising on the basis that as commissioning/default supplier it will not be required to increase its brand awareness in order to attract customers. The Consumer Council is in agreement that the costs submitted by SSE Airtricity are excessive.

7.4 We are keen however to invite discussion on how best to promote natural gas in the West and achieve connections to supply. In the West natural gas is a new product and for many, the brand of SSE Airtricity is unfamiliar. Both SSE Airtricity and the distribution network operator, Scotia Gas Networks have a shared objective of gas being used by as many households as possible in the West. We believe however that individual company branding could lead to consumer confusion. We would therefore encourage a joint approach to branding, with the primary focus being the actual delivery and availability of natural gas in the West. A successful whole project approach should create sufficient awareness for consumers to identify with the SSE Airtricity brand.

8 Margin

8.1 The Regulator proposes that the margin for both Firmus Energy and SSE Airtricity for the next price control should be set at 2% of turnover. However we can see no firm evidence to support this proposal.

8.2 On the contrary, the CMA's assessment in its Energy Market Report⁸ states that a figure of 1.25% represents an appropriate fully competitive margin. We would therefore suggest that on this basis, the current margin of 1.5% should not be increased to the proposed margin of 2%.

⁸ CMA Energy Market Report - June 2016.

8.2 Furthermore, the Regulator outlines that the current figure of 1.5% was set when there was less competition for SSE Airtricity and Firmus Energy in Greater Belfast and Ten Towns therefore it believes that some sort of uplift should be applied. However, switching in Greater Belfast has completely stagnated. In the last 12 months domestic switching rates have been 0.2% per quarter and there is no domestic competition in the Ten Towns. In fact the Regulator acknowledges the relatively advantageous position held by SSE Airtricity and Firmus Energy in these markets, yet still deems it appropriate to increase the level of margin.

9 Conclusion

9.1 The Consumer Council aims to strike a balance between the growth and development of natural gas whilst ensuring the interests of consumers are protected. In our view many aspects of this price control do achieve this balance.

9.2 We have sought to offer views on how we believe consumers can be better protected. Specifically we would welcome work to further promote competition for deregulated EUC2 consumers, introduce benchmarking against industry best organisations and reconsider proposals to increase margin levels considering suppliers current advantageous position.

- 9.3 The Consumer Council remains committed to working in partnership with the Regulator and the gas industry to develop natural gas and its accessibility, to promote competition and most importantly, to protect the interests of consumers.
- 9.4 If you would like further information or to discuss any issues in this paper, please contact Mark Crawford on 028 9025 1640 or mark.crawford@consumercouncil.org.uk.



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