



**Price Control for Northern Ireland TSO 2020-2025**

**Consultation on Approach**

**January 2019**

## **1. Introduction**

- 1.1 The Consumer Council is a non-departmental public body (NDPB) established through the General Consumer Council (NI) Order 1984. Our principal statutory duty is to promote and safeguard the interests of consumers in Northern Ireland.
- 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.
- 1.3 We welcome the opportunity to respond to this consultation. As a member of the SONI SECG we have already had an input into the early stages of The Utility Regulator's (UR) approach to the development of the SONI Price Control.
- 1.4 The Consumer Council supports the overall approach that the UR is proposing. We welcome and encourage the UR proposal to be guided by its principles of Transparency, Predictability, Proportionality and Accountability.

## **2 The CMA Price Control appeal**

- 2.1 It is important for both SONI and the UR to take on board the findings of the 2017 CMA findings on the SONI Price Control appeal. The findings and recommendations by the CMA were made in order to promote the interests of consumers.

## **3 Promoting the interest of consumers**

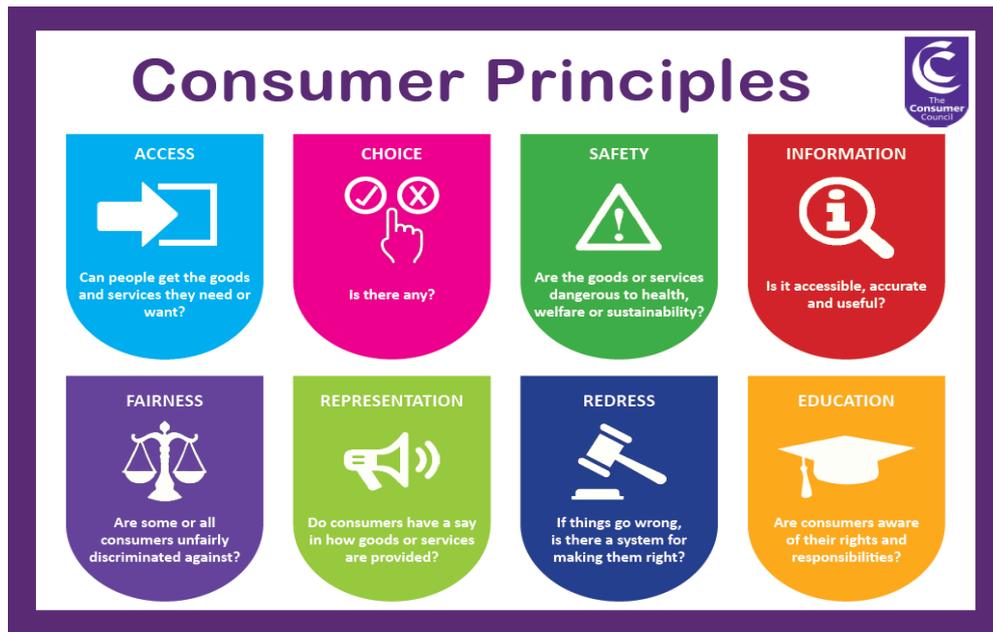
- 3.1 The complex and diverse nature of SONI's activity presents a unique challenge for the UR to identify where and how and how it can best promote the interest of consumers. The direct cost of SONI to consumers is relatively small but the activity the company undertakes affects consumers in significant and practical ways and can influence indirectly the cost of electricity to the end user.
- 3.2 We welcome the initiative taken by the UR in setting up the SECG and this group has already made some important contributions to the development of the next Price Control. We believe that both the SONI Business Plan and

the Price Control would benefit from a direct survey of end user consumers to gather their views of their priorities and expectations of their electricity supply. Because of the oblique nature of the relationship between SONI and end user consumers, such research should be set within a wider consumer survey on energy issues. It should then be possible to extract the issues and responses that relate to the activities of SONI.

- 3.3 Consumers see electricity in its entirety rather than focusing on one element of the supply chain. During the development of the NIE Networks RP6 Price Control, the company undertook a major piece of consumer research. The UR and SONI could consider a wider electricity survey that would inform all elements of the supply chain from generation to supply. The Consumer Council has experience in this type of research and would be happy to discuss this further.

#### **4 Consumer Principles**

- 4.1 During 2018 we have been promoting the use of the 'Consumer Principles'. These are a suite of internationally recognised principles that we use to assess the consumer interest and form a consistent framework within which our policy is developed and communicated. In September we organised a seminar with the energy network companies, UR, NI Water, Citizens Advice Scotland and Scottish Water to discuss how using the 'Consumer Principles', could enhance consumer experience of dealing with utility companies. We would like to see UR and SONI using the 'Consumer Principles' as one of the tools to assess how well they are meeting the needs of consumers within the SONI Price Control. We would welcome the opportunity to discuss this further with both UR and SONI. The Consumer Principles are:



## 5 Current and Future consumers

- 5.1 We welcome the focus of the approach document on future consumers. As the paper notes, the energy sector is in a period of transition. The Consumer Council recognises the potential benefits that new technology presents for consumers, and encourages its development whilst being mindful of the need to protect those consumers unwilling or unable to take advantage of new technology.
- 5.2 The range of activities that SONI undertakes puts it in an important position to deliver high level, strategic innovation that can change the way electricity is produced and consumed. As SONI and UR prepare proposals for the future of the electricity sector, they need to ensure that they align with the priorities of consumers. Whilst it is important that a new Strategic Energy Framework for Northern Ireland is developed as quickly as possible, we have to be mindful that with no minister in place, a binding document may not be available in the time required. The Utility Regulator and SONI must work closely with the Department for the Economy and key stakeholders to understand and respond to the broad direction of travel that Northern Ireland is to take.

- 5.3 The consumer survey mentioned at 3.2 will provide evidence of the Northern Ireland consumer's appetite for change in how they use energy and for where and how it is generated.
- 5.4 As the activity of SONI is a relatively small cost to consumers, but with a deeper impact in terms of overall service, there is potential for significant consumer benefit at a relatively modest cost, from trialling innovative technology. The UR should ensure that it is not overly 'risk averse' when considering innovative projects. The potential long term benefit to consumers and small short term cost of innovative schemes justifies a reasonable amount of managed risk be taken with consumers money.

## **6 Governance**

- 6.1 Having robust governance arrangements is a way for SONI to instil consumers' confidence in the company. The complex nature of its business and functions mean that consumers will not understand or be interested in the detailed running of the company. Instead consumers rely on trusting that the company is properly run and accountable. The need for consumers to understand and have confidence in the role and accountability of SONI has arisen in recent years with regard to ISEM Capacity Auctions, the despatch and balancing of the energy market, the expert advice on security of supply issues and the procuring of additional generation.
- 6.2 Consumers need the confidence that is provided by transparent and appropriate governance. We note that the UR will be issuing a separate consultation on its governance proposals. We suggest that this is done as quickly as possible.

## **7 Incentives**

- 7.1 One thing that has emerged from discussions at the SECG is the lack of incentives and targets that currently apply to SONI. We are encouraged that the UR is planning on using a financial incentive structure in its approach to

the next Price Control. However, as SONI is a monopoly operator, we think a reputational incentive will provide limited benefit to consumers.

- 7.2 The UR will need to give careful thought to how it designs financial incentives. Whilst cost is important it is only one of the outcomes that SONI delivers for consumers. Cost must be balanced with the overall 'value' that SONI can achieve for the whole electricity sector through managing the market, procuring new generation, planning network development and enabling government strategic priorities.

## **8 Conclusion**

- 8.1 We welcome the approach proposed by the UR. The proposals to engage with stakeholders and improve financial incentives offer potential benefits for consumers. The overarching role that SONI plays within the electricity sector means that the Price Control that UR and SONI design will influence the price, type and quality of service for current and future consumers.



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