



The Consumer Council

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Ref: PD20010748

Kevin O'Neill & Billy Walker
Utility Regulator
Queens House
10-18 Queen Street
BELFAST
BT1 6ED

Dear Kevin and Billy,

Re: SONI Price Control 2010 - 2015 Consultation Paper

The Consumer Council is a Non-Departmental Public Body set up in legislation to safeguard the interests of all consumers, and particularly the vulnerable and disadvantaged. The Consumer Council is an independent organisation which operates to promote and protect the consumer interest.

We welcome the opportunity to respond to this consultation on SONI Price Control 2010 - 2015 Consultation Paper.

With fuel poverty levels in Northern Ireland at 44 per cent, many households are struggling to adequately heat their home, it is important that the regulatory structures look to minimise the cost of energy to consumers.

Using ex ante regulation for capital expenditure should encourage cost effectiveness within SONI. A Capex allowance should therefore be set at a level which will encourage SONI to find cost efficiencies which should aim to lower the costs passed onto consumers.

Reducing the length of the price control to three and a half years this will effectively result in a two and a half year price control, given a year of the control period has already passed. It seems practical to undertake a five and a half year price control (effectively four and a half years) which should allow for greater availability of finance. Justification of costs in the last two years must be provided in advance to ensure these are cost effective and will ultimately have benefits for consumers.

Staff levels and payroll allowance should provide increased efficiency. SONI have suggested an increase of over 50 per cent in staff levels of the period of the price control. Such an increase in staff levels should only be accepted if there will be benefits for consumers, which will ultimately be realised through lower prices.

Currently SONI has the necessary IT and communications in place to produce optimum dispatch. Upgrading will be required but should only be undertaken where it will create efficiencies which reduce costs. It is important that the allowance for such systems takes account of future upgrading and capacity requirements.

Benchmarking shows that SONI's proposed employer contribution is relatively high and therefore the level of the employer contribution should be fully justified. Given the changes in staff over the price control period it seems possible that pension savings will be possible over the price control period.

In relation to deficit recovery it may be more prudent, given the current economic climate, to use a 15 year deficit recovery period. Changes to the investment strategy for SONI's pension scheme should only be undertaken to mitigate the risk of investments. Consumers will ultimately pay for pension costs through their final bills. Therefore consumers should not be expected to pay a risk premium for investments made by SONI.

As other Opex costs are now more stable following the previous price control, additional costs should be minimal and only allowed if these can be fully justified as being cost effective.

The Consumer Council believes that the Capex allowance should incentivise cost savings which in turn will lead to lower costs for consumers. The Consumer Council agrees with the Utility Regulator that there should be no allowance for non-identified Capex in the price control.

Future building requirements should only be undertaken if they will result in improved levels of efficiency and future cost savings. SONI's submission for building requirements is based on a 50 per cent increase in staffing levels. SONI should consider more cost effective ways to create space for increased levels of staff. Once the most cost effective option is chosen there is potential for costs to be reduced through competitive tendering as a result of the downturn in the construction market in Northern Ireland.

The weighted average cost of capital should be set to provide the most cost effective outcome for consumers which will ultimately be realised through the lower prices.

Depreciation during the price control period and in future price controls should be reduced where possible through cost effective upgrading of existing capital.

The Consumer Council believe that the aim of any price control should be to reduce the final cost of energy to consumers. However, it is important that consideration is given to the third package, DETI's Strategic Energy Framework and the renewable targets which will affect the future of the electricity industry in Northern Ireland and the costs which will be incurred by Transmission System Operator.

I hope that these comments are helpful and are given due consideration. Please contact me if you require any clarification.

Yours Sincerely,

Andrew Murray
Senior Consumer Affairs Officer