



The Consumer Council

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Ref: PD20010843

Nicola Sweeney
Utility Regulator
Queen's House
14 Queens Street
Belfast
BT1 6ED

Dear Nicola,

Re: NIE Energy Supply Price Control 2011 - 2013

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 the NIE Energy Supply (NIEES) price control 2011 – 2013.

It is the position of the Consumer Council that any decision regarding regulated businesses' price controls should only be undertaken if it is in the interest of the consumer. With fuel poverty levels in Northern Ireland at 44 per cent, it is important that the regulatory structures look to minimise the cost of energy to consumers.

ESB's purchase of NIE

The impact of ESB's takeover of NIE plc should have very little or no impact on the cost structures of NIEES. Any financial impact should have been taken account of within the sale of NIE to ESB. In addition, through EU legislation surrounding unbundling, each business should have been and should be acting as single entities. Therefore, the purchase of NIE plc by ESB should have no cost implications for NIEES which would impact on consumers.

Opex analysis

The Consumer Council agrees that there is potential for switching levels to remain high due to:

- Keypad customers now being able to switch;
- The removal of switching constraints in May 2012 with the introduction of the Enduring Solution;
- More suppliers entering the supply market; and
- Customers being able to choose their supplier at the sign up stage

As switching becomes a more common practice and the current systems and enduring solution are proven reliable, there is real potential that switching will become a standard practice for a large number of households in Northern Ireland. It is also plausible that after 'go-live' competing suppliers may ramp up their selling practices once switching constraints are removed.

With NIEES's customer numbers expected to reduce it does not seem reasonable to expect larger call volumes. Therefore current staffing levels would seem appropriate at this time. As the customer base decreases NIEES should be expected to continue to maintain its levels of customer service with its existing staff levels. Therefore, taking into account current economic conditions, it does not seem reasonable for staffing costs to be increased above inflation as this would not represent the actions of a truly competitive business within the current market conditions.

The Consumer Council does not believe that marketing expenses undertaken to win new customers should be recovered through consumers and therefore should not be allowed in the supply price control. It is not reasonable to expect customers to pay for marketing material which aims to increase the business value for shareholders. It is however appropriate for marketing material aimed at improving customer awareness to be allowed provided this spend on marketing is carefully monitored and appropriate.

Energy efficiency investment by NIEES should be seen as an opportunity for the company to make an impact on the high levels of fuel poverty in Northern Ireland. Spending on energy efficiency measures for households should be considered and any spending on energy efficiency should aim to provide the greatest possible benefit for all consumers. It is therefore appropriate to fully assess any proposed energy efficiency methods.

NIEES have suggested bad debt levels will increase as customers switch suppliers. However the Consumer Council would like the Utility Regulator to consider how overall bad debt levels are expected to increase as NIEES's customer base falls and whether NIEES can proactively do anything to manage bad debt levels. With lower customer numbers in the future, the reflecting level of bad debt is likely to reduce with the smaller customer base.

Switching processes should aim to reconcile bad debt liabilities between companies.

It should also be considered as to whether increasing allowed spending on billing is appropriate given the reducing customer base and the introduction of online bills which should reduce the printing costs.

Corporate charges should not be recoverable through consumers and it is reasonable to expect any changes to these charges to be borne by shareholders.

In relation to opex and competition the Consumer Council believes that if the future is a competitive electricity market in Northern Ireland then all companies (including NIEES) should be promoting efficient and cost effective behaviours. If NIEES are to remain competitive in the future, in a homogenous market, they should endeavour to reduce costs now and produce efficiencies which will ultimately lead to a lower and more competitive cost of electricity for consumers.

Margin

It is important to note initially that a supply business can increase its margin above that allowed by the regulator if it reduces its costs below what is allowed in the price control.

The Consumer Council agrees with the Utility Regulator that NIEES is **not** currently fully exposed to market risk:

- NIEES market share of all customers makes it the dominant supply company in the market;
- The K factor protects NIEES from under-recoveries;
- All supply businesses are susceptible to wholesale market risks similar to NIEES;
- NIEES can recover costs through consumers; and
- The NIEES brand is well established in Northern Ireland

The Consumer Council believes further consideration should be given to setting a minimum level of margin that must at least be achieved by NIEES. By setting a minimum margin there is potential for NIEES to act in an aggressive manner by reducing costs but still be guaranteed a margin regardless of their activities. This provides a risk for customers who will ultimately pay for these cost savings in the future.

The Consumer Council believes that any decision made regarding the NIEES price control should be taken in the interests of all consumers in Northern Ireland. The competitive market here is still in its infancy and if it is to deliver

benefits to customers through lower prices it is important to ensure the incumbent and regulated supplier acts in the interests of consumers rather than their shareholders. Benefits for consumers will ultimately be realised through lower final bills.

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