



The Consumer Council

Elizabeth House
116 Hollywood Road
Belfast
BT4 1NY

**Graham Craig
Gas Directorate
Queens House
14 Queens Street
Belfast
BT1 6ED**

20 September 2012

Dear colleague

**Re: BGE (NI) Ltd Price Control 2012-2017 Cost of Debt
Consultation**

The Consumer Council welcomes the opportunity to respond to this consultation.

The Consumer Council is an independent consumer organisation, working to bring about change to benefit Northern Ireland (NI) consumers. Our aim is to make the consumer voice heard and make it count.

We have a statutory remit to *promote and safeguard the interests of* consumers in NI and we have specific functions in relation to energy, water, transport and food (the Consumer Council and the Food Standards Agency (FSA) have a memorandum of understanding and the Council's strategic focus on food is primarily in relation to food prices and customer experience). These include considering consumer complaints and enquiries, carrying out research and educating and informing consumers.

The Consumer Council is also a designated body for the purposes of supercomplaints, which means that we can refer any consumer affairs goods and services issue to the Office of Fair Trading, where we feel that the market may be harming consumers' best interests.

In taking forward our broad statutory remit we are informed by and representative of consumers in NI. We work to bring about change to benefit consumers by making their voice heard and making it count. To represent consumers in the best way we can, we listen to them and produce robust evidence to put their priorities at the heart of all we do.

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 aim to protect consumers and minimise the cost of energy to consumers. In dealing with any element of network price controls the Utility Regulator, (the Regulator) must keep in mind that its primary objective is to protect the interests of consumers. We recognise also that BGE (NI) must be able to finance its business and future development.

The Consumer Council welcomes the Regulator's proposal to reduce BGE (NI) allowed cost of capital to 5.83%. This represents a 0.36% reduction compared to BGE (NI) WACC for the Price Control 2007-2012 and 2.66% compared to the company's proposal for 2012-2017.

With regards to the Regulator's analysis, we note that the proposed Risk Free Rate (RFR) and Debt Premium (DP) figures are within the parameters of the figures allowed to regulated industries in GB and Northern Ireland as shown in tables 2 and 5 of the Regulator's consultation document.

This consultation document does not provide clarity as to what factors and risks specific to BGE (NI) have determined the Regulator's proposed figures of 2% and 1.20% for RFR and DP respectively. However, following a brief by the Regulator on this consultation, clarification on the methodology used to calculate the RFR and DP as well as insight into the level of risk that BGE faces was provided. However, despite the additional information provided by the Regulator, question marks remain on how the proposed figures are reflective of BGE's specific risk and fair to consumers.

For example, the Regulator describes the proposed RFR of 2% in the consultation paper as "generous". Value and risk should be shared equitably between consumers and energy companies. The term "generous" suggests an imbalance of value and risk favouring the company; the consumer losing out as a result.

We believe as a matter of principle that the Regulator should not allow BGE or any other regulated company any allowance, including all elements of the rate of return, that can be deemed as generous. This is particularly important in the context of the high levels of fuel poverty here and the Regulator's obligation to protect consumers defined as an objective in Article 40 of the Gas Directive.

With regards to the DP, we acknowledge the Regulator's methodology of using as reference the IBoxx index for "BBB" listed companies. However, any proposed DP should reflect more accurately BGE (NI) lower level of risk compared to other network companies in GB. This results from the fact that BGE (NI) has now completed its gas network and enjoys a set allowance.

Given the figures and analysis provided by the Regulator we see no reason or evidence why the Regulator should not allow BGE (NI) the lowest RFR and

DP reference figures of 1.75% RFR and 0.78% DP included in tables 2 and 6 of the document. We ask the Regulator to consider these lower allowances, which would contribute towards minimising the cost of energy to consumers. Alternatively we expect the Regulator to provide evidence demonstrating how a lower RFR and DP than those proposed in the consultation document would impact on the ability of BGE (NI) to finance its business and future development.

If you wish to discuss the attached in more detail, please do not hesitate to contact **Marian Cree** on **028 9067 2488** or by e-mail at mcree@consumercouncil.org.uk .

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Cree', with a stylized flourish at the end.

Marian Cree
Head of Policy (Energy)