



Consultation: Northern Ireland Electricity plc Transmission & Distribution 6th Price Control (RP6)

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Introduction

The Consumer Council is a non-departmental public body established through the General Consumer Council (Northern Ireland) Order 1984. Our principle statutory duty is to “*promote and safeguard the interests of consumers in Northern Ireland (NI)*”.

The Consumer Council welcomes the opportunity to respond to the Utility Regulator’s (the Regulator) consultation on its overall approach to the Northern Ireland Electricity plc Transmission and Distribution 6th Price Control (RP6).

The Consumer Council believes this price control should ensure:

1. That the impact to the final consumer (both business and domestic) is considered before making any decision; and
2. As fair as is practically possible, that decisions made within this price control are simply and practically explained in a manner that both business and domestic customers will understand. This will help to build understanding and transparency around the price control process and ultimately will help in building consumer trust in the electricity market here in NI.

The Consumer Council believes it is important to learn from previous NIE Price Controls. In particular the current RP5 Price Control provides a number of lessons drawn out of a lengthy process with an initial determination by the Regulator ending the Competition Commission’s final determination. Overall, the most important lesson from RP5 is that there is an agreed outcome which is driven by the needs of final consumers (both business and domestic).

The Consumer Council believes that the RP6 price control should focus on ensuring costs to consumers are minimised whilst the security of the electricity supply for consumers is maintained. Research conducted by the Consumer Council in 2015 highlights that 95% of consumers regard paying the lowest price for electricity as important, while 92% consider ensuring a reliable energy supply as important. Promoting the use of energy generated from renewable sources is of less importance to consumers, with 60% of consumers considering this important.

The Objectives

We support the objectives of RP6 as listed at 3.12 of the consultation document. We would add the following objectives to the list:

- A Price Control that is transparent in process and clear in its outcomes;
- Introduce new output metrics with incentives for environmental issues, customer service, public safety, energy theft and social obligations;
- Ensure RP6 is based on robust data and reconsider introducing a “Reporter”;
- Allocate risk appropriately between consumers and NIE;
- Address strategic objectives for NI; and
- Create regulatory certainty to encourage investment for the future.

Information

The main feature of RP5 was the poor quality of information and asset management data available to the Regulator and consumers. This led to

a huge discrepancy between NIE and the Regulator over the CAPEX allowance requirement, a consequent delay in the Price Control process and legal costs being added to consumers bills.

Therefore, it is very important that NIE provides evidence that is robust and allows the Regulator and consumers to properly consider the issues that arise. We are aware that the Competition Commission rejected the Regulator's suggestion in RP5 of introducing a "Reporter". However, the Consumer Council's experience of a "Reporter" in NI Water has been a positive one and we ask the Regulator to revisit this.

The Consumer Council welcomes the requirement that NIE Networks submits its business plan in a format that can be understood by its customers. Transparency is essential if consumers are to understand NIE Networks' proposal and this principle should also be adopted by the Regulator in terms of the documents it publishes concerning RP6.

Consumer Engagement

The Consumer Council believes the Regulator's approach to consumer and stakeholder engagement for the RP6 marks a distinct improvement in comparison to the engagement for the previous price control period. It is essential that the findings of the research are constructively used by NIE Networks in developing its business case and that the data is not used selectively to support the company's existing investment goals.

Furthermore the data obtained should not be used as a one off to inform the business plan, but as an ongoing measure of performance throughout the life of RP6.

Incentives and outputs

The Consumer Council agrees with the Regulator's view that NIE Networks should be able to quantify the improvement in service in terms of outcomes which are tangible and which consumers can understand and have previously expressed support for. The consultation document notes the incentives currently in operation under RP5 and presents a series of potential incentives for the RP6 price control. We would wish to see further incentives and outputs introduced on environmental issues, customer service, public safety, energy theft and social obligations.

The Consumer Council is of the view that where incentives are implemented they must be to the benefit of consumers. Incentives to reduce costs should ultimately lead to consumers paying lower prices. It is important to ensure that during RP6 incentives encourage efficiency savings and that any under spend in Capex or Opex as a result of these savings is passed on to consumers through lower bills.

The Consumer Council recognises the potential benefits that innovation can bring in terms of improving services and lowering costs for consumers. We agree with the Regulator's view that the purpose of any innovation must be to reduce costs and/or improve outputs that benefit customers and that innovation costs should be funded within the overall price control package and not from increased prices.

Addressing strategic objectives

The consultation paper notes that previous price controls have contributed significantly to the delivery of new infrastructure to facilitate renewable generation. It is important that RP6 infrastructure

development proposals are drafted in recognition of the fluidity of the policy landscape concerning the incentivisation of renewable energy generation in NI. The NIRO is due to close in 2017 with closure for onshore wind planned for 2016.

It is not yet clear whether the department of Enterprise, Trade and Investment (DETI) intends for NI to participate in the UK Contracts for Difference (CFD) Scheme. The Consumer Council has recommended NI does not participate in the CFD given the significant increase in costs in consumers' bills that would result. If financial incentivisation for renewable energy generation in NI is not available in the future, this will have a significant impact on NIE Networks' investment requirements. It is essential this is taken into consideration by NIE Networks in drafting the RP6 business plan and by the Regulator in its evaluation of the proposal.

In more general terms, RP6 must take account of the outcome of DETI's review of the Strategic Energy Framework which will conclude on 31 December 2015.

Risk allocation

In its Final Determination, the Competition Commission introduced a risk allocation of 50:50 between consumers and the company's shareholders for non pass through costs. The Consumer Council supports this approach in principle. However, we acknowledge that the practical outworking of this approach must be carefully considered on each cost element, on a case by case basis, to ensure that it produces outcomes that are fair and equitable.

We expect the Regulator to maintain in principle the 50:50 approaches, but the consultation makes no proposal for risk allocation between consumers and shareholders. We would welcome clarification on the approach that the Regulator intends to take as soon as possible.

If you would like further information or to discuss any issues raised in this paper please contact Richard Williams on 028 9025 1649 or richard.williams@consumercouncil.org.uk.



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