*Response to:*

### NIAUR

*on*

 PPB Price Control

Initial Proposal Paper by NIAUR

by

**The Consumer Council**

*September 2007*



* 1. The Consumer Councils’ role is to give consumers a voice - and to make sure that voice is heard by those who make decisions that affect consumers. A Non-Departmental Public Body, the Consumer Council was set up by statute in 1985 to promote and safeguard the interests of all consumers in Northern Ireland. The Consumer Council has certain specific responsibilities for energy (including natural gas, electricity and coal), passenger transport, food, and water.
	2. A key feature of the Consumer Council’s work is the need to carry out research to determine consumer concerns and to campaign for the best possible standards of service and protection. The Consumer Council has a major role to play in educating consumers so that they will have the skills and confidence to meet future challenges.
	3. The Consumer Council welcomes the opportunity to respond to the consultation on the Utility Regulator’s initial proposals of PPB Price Control.
	4. *Introduction*

The Consumer Council has the following comments to make:

* 1. regulatory price control mechanism that was set up for PPB in April 2002 and with various modifications will run until the start of the SEM in November 2007 has not produced as great a benefit to the energy consumers of Northern Ireland as we would have like to have seen. Whilst the mechanism aimed at reducing the consumer costs through the PSO, the actual level that the incentive was set up appears to have rewarded the PPB more than it did the consumer. This is evidenced by the high profit in relation to the operating costs of the PPB particularly in the years 2005/07 and 2006/07.
	2. The PPB bears no significant risk to its profit under the current price control mechanism because any loss would be passed through to the consumer through the PSO.
	3. *The duration of the price control of 17months****.***

The Consumer Council agrees with this proposal. The SEM is a new market environment and it will take some time for all participants and regulators to understand how it will operate. It is prudent to adopt a ‘wait and see’ approach until there is more certainty as to how the market will operate.

1.8 *Operating Costs.*

The Consumer Council is concerned with ensuring that any cost savings that can be passed onto the Consumer through the PSO are maximised. On this basis we would support the argument put forward by the Utility Regulator and their proposed operating costs. The PPB would need to submit a detailed cost forecast and a strong argument to justify their own submission for estimates on the new ‘SEM related’ and ‘other’ costs.

1.9 *The x factor*

As with the operating costs, so long as a reduction in operating costs is reflected in a minimisation of the PSO, the Consumer Council supports the PPB being given challenging but achievable internal efficiency targets. Therefore we support the suggested x factor of RPI minus 3%.

1.10*Profit allowance.*

The Consumer Council supports the Utility Regulators’ view that an ex-ante profit is not appropriate for PPB. In particular we acknowledge that the PPB has no competition and that with its pass through of risk to the consumer via the PSO, it cannot make a loss. The Consumer Council would prefer to see any profit linked to an incentive scheme that aims to minimise the cost to the PSO.

1.11 *The proposed incentive****.***

The Consumer Council understands the Utility Regulators concerns about an incentive mechanism for the PPB. We agree that the aim of a PPB incentive must be to minimise the cost to the PSO and hence to the consumers of Northern Ireland but also that PPB runs as effectively as possible. As mentioned above this is not what has happened under previous price control mechanisms. The Consumer Council agrees with the Utility Regulators concern that an incentive scheme should allow PPB to make a loss as well as a profit. It is not acceptable that PPB be given an incentive to gamble on maximising its profit whilst carrying no risk if this gamble becomes a loss.

1.12 *Conclusion*

The Consumer Council believes that the PPB has been able to maximise its profit under the price control mechanisms that have been in place since April 2002. At the same time they have faced no business risk. Any new price control proposal must have as its primary aim the minimisation of the PSO and hence cost to the consumer. The final decision and the mechanism chosen must be fair and transparent balancing the consumer needs and business requirements of the new SEM.