

**Lesley Robinson
Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ER**

26 August 2011

Dear Lesley,

Re: Utility Regulator Minded to Position on Phoenix Supply Price Control Consultation Paper

Power NI (the new name for NIE Energy (Supply)) welcomes the opportunity to respond to the recent consultation on NIAUR's minded to position regarding the Phoenix Supply price control determination.

Consistent with our response to the earlier consultation, rather than directly responding to each of the minded to decisions; as a regulated supplier of electricity supplier to circa 780,000 customers within Northern Ireland, Power NI would like to again draw upon our experience to comment were relevant.

Notwithstanding that the gas market has substantially greater hedging facilities available and competition is less well developed than the electricity market, the fundamental issues surrounding margin are similar.

Monopoly suppliers are able to operate with low margins because the correction (k) factor enables them to correct any under-recovery of costs in future years. Additionally, financial institutions consider them as a low credit risk and this therefore makes the securing of capital and credit lines straightforward.

Retail competition greatly increases the actual and perceived risks to which an incumbent is exposed. Where market entry is possible, any fall in wholesale costs after the incumbent has contracted to supply its customers may result in both a loss of customers and a price level that does not enable cost recovery on the remaining customers. Any significant under-recovery is unlikely to be made good in future years as it would further reduce the competitiveness of the business. Any contracting gain, on the other hand, where prices rise after the contracting round, must be returned to customers. Additionally, in this environment the financial markets have an expectation that required returns would be greater.

The price controlled incumbent who faces competition is therefore exposed to an asymmetric risk. NIAUR should be cognisant of the impact that competition and the general market risks have on regulated suppliers and adjust margins appropriately.

Please do not hesitate to contact me should you wish to discuss this response further.

Yours sincerely,



William Steele
Power NI