

Lesley Robinson  
Retail Branch  
The Utility Regulator  
Queens House  
14 Queen Street  
Belfast  
BT1 6ED

4<sup>th</sup> December 2015

Dear Lesley,

**Re: Electricity and Gas Retail Supply Price Controls 2017 (SPC 17) Approach Consultation**

Firmus energy welcomes the opportunity to respond to the Utility Regulator's SPC 17 Approach Consultation and our interaction on SPC 17 to date. The opportunity SPC 17 provides for engagement aligns with our commitment to stakeholder engagement in order to maximise the benefits of natural gas to as many consumers as possible.

We are currently working to progress the Utility Regulator's information requests received on 20 October 2015 and 2 December 2015 with response dates of 15 January 2016 and 29 January 2016 respectively. As such this response provides high-level comment on the overall price control principles.

**Proposed Structure and Form of the Controls**

We welcome the proposed structure and form of the control for firmus energy particularly given the intention of the Utility Regulator to provide for the inclusion of the price control calculations and to permit disapplication within gas supply licences via licence modifications.

Firmus energy has already undertaken informal consultation with the Utility Regulator regarding the content of these licence modifications and are committed to further engagement, including by response to the formal consultation, in order to ensure the development of effective and transparent licence modifications that will affect the structure and form outlined in the approach document.

**Scope of the Control**

Following successful development and implementation of the Ten Towns switching system by firmus energy Distribution all sectors of the Ten Towns market are now open to supply competition. In the eight months since market opening and our last supply price control took effect the Ten Towns Distribution Network has grown by c. 2,600 customers. However we note firmus energy remains the sole supplier licenced for domestic market activity and for that reason firmus energy acknowledges the need for the continuation of the existing price control scope.

We welcome the statement contained within the approach document that the Utility Regulator will continue to monitor the market as competition develops, in light of its statutory duties.

### **Duration of the Control**

While the short duration of our previous supply price control created additional workload pressure we recognise the benefit to the market and the Utility Regulator of the alignment of our control with the other incumbent suppliers for SPC 17. The experience gained from that control indicates that the rationale for a longer control as proposed by the Utility Regulator is prudent in order to reduce the regulatory burden and resultant costs. We also recognise that, given the potential for change within the Ten Towns supply market, a five year duration may present difficulties for the accurate forecasting of volumes and customer numbers. For these reasons, and to mitigate the likelihood of reopeners mid-price control, we welcome the proposed three year control duration.

### **Options for Assessing Operating Expenditure (Opex)**

Firmus energy note the statement by the Utility Regulator that the “Ten Towns gas market is a relatively small market” and request that the impact of our scale is considered in greater depth when assessing opex costs for firmus energy in SPC 17. As this is the second price control process we have undertaken with the Utility Regulator, we note the greater availability of robust historic data for which to assess the impact of scale on opex, and the existence of fixed costs within all opex lines.

While we acknowledge our costs were recently determined during our control which commenced in April 2015, given the continued impact of scale on our opex spending, we would welcome an extension of Utility Regulator’s proposed top down approach to costs. The use of a combination of ‘bottom up’ and ‘top down’ analysis (with historical trend analysis) would be more appropriate and we will work with the Utility Regulator to provide any additional information required to undertake this additional analysis.

This is of particular importance regarding the assessment of actual fixed costs for the headcount required to run our business in an efficient and cost effective manner. It is also important to note that the recent change in firmus energy ownership now enables us to manage directly some services, such as IT, previously undertaken on our behalf by our then parent company.

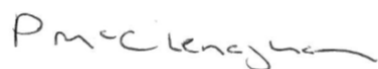
We welcome continuation of the approach to network costs and wholesale gas costs as pass through costs for this price control and will provide the Utility Regulator with the relevant information required to assess these costs.

### **Allowed Margin**

Firmus energy welcomes the proposal from the Utility Regulator to carry out a complete review of our allowed margin for this price control. We will provide our own detailed submission relating to margin by the January 2016 information request deadline and will engage with the Utility Regulator to enable their independent assessment of the same, under their proposed methodology to use the capital base and the cost of capital for margin calculations.

We trust this response assists the Utility Regulator in the implementation of the SPC 17 process and we look forward to continued engagement to conclude this supply price control process for our regulated tariff Ten Towns Supply Business.

Yours sincerely,



Peter McClenaghan  
Regulatory Affairs Manager