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ANTRIM
BT41 4LZ

Briege Tyrie
The Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ED

23 February 2016

Dear Briege,

Draft Forward Work Programme 2016-2017

Firmus energy operates a bundled distribution and supply business within our Ten Towns Licence Area pursuant to an established regulatory framework, made up of the terms of the licences granted in March 2005 and the legislative regime set down, in the Gas (Northern Ireland) Order 1996 (as amended). In the Greater Belfast and Larne Area we have a gas supply licence granted in February 2006.

Firmus energy is committed to working with the Utility Regulator (UR), DETI, the Consumer Council for Northern Ireland (CCNI) and other stakeholders in order to provide the benefits of natural gas to as many consumers as possible in Northern Ireland – in a socially responsible and consumer focused manner. To this end, we welcome the opportunity to respond to this consultation on the draft forward work programme 2016-2017.

We welcome UR's value led approach to delivering the projects within the forward work programme and are hopeful of a satisfactory outcome for the GD17 and SPC17 price control processes. Key elements to be agreed include Opex and Capex allowances in both controls, allowed margin in the supply control and rate of return and treatment of Total Regulatory Value for the distribution control.

Firmus energy welcomes the commitment, repeated by UR, to transparent, proportionate and consistent engagement with GDNs. We are keen that UR take cognisance of the significant differences in scale and, more specifically, manpower resource available to NI GDNs compared with their GB counterparts.

Given the relative immaturity of the gas networks in NI, particularly the Ten Towns network, firmus energy welcome UR's commitment in their work programme to address, as a Key Challenge, the need to extend the natural gas network in NI.

Business Plan projects

We recognise the importance of the business plan projects that need to be addressed during 2016-2017 and have the following comments.

Flagship project 2 and Strategic objective 1 Business Plan project Ref 2. Complete the gas network price controls for the period 2017-2023 for PNGL, firmus and SGN (GD17) and progress the GNI price control

We look forward to continued engagement with UR to agree an effective GD17 determination that will develop the gas network in the Ten Towns area.

Flagship project 3 and Strategic objective 1 Business Plan project Ref 3. Complete price controls for three incumbent electricity and gas supply companies (SSE Airtricity, Power NI and firmus energy)

The SPC17 information requests on operational expenditure and on margin were submitted on time in January 2016. We look forward to working with UR to achieve a successful price control. In particular, we believe allowed margin and opex allowances should be reviewed considering current experience.

Flagship project 6 and Strategic objective 2 Business Plan project Ref 3. Review the effectiveness of retail energy market competition (phase 2)

We note the findings of the Cornwall energy report (November 2014) which stated:

“In a small market with clear limits on the number of viable players, we see real risks of oligopolistic pricing and associated customer detriment if price controls are removed too quickly. In such circumstances it is a moot point whether sufficient suppliers are likely to emerge that will enable regulated pricing to be removed altogether. Consequently we would expect that this co-existence of competition with price regulation of the incumbents in NI will continue for some time. Competition could be stimulated by increasing the allowed profit (increasing “headroom”) in the price controls, but we believe this will tend to create customer detriment as costs to the large number of sticky customers will increase. At the same time new entry will continue to be limited by the size of the market and relatively high costs of entry.”

We will participate in the second phase of UR’s review of retail markets and contribute to and provide feedback on resultant regulatory policy requirements.

Flagship project 7 and Strategic objective 3 Business Plan project Ref 1. Implement the five-year Consumer Protection Strategy (CPS): year 1 project priorities

Firmus energy welcomes the proposal to progress these projects including work on the code of practice on energy theft. However, we feel it is important that any changes requiring systems changes should be phased in with appropriate allowances for the time and costs needed.

Flagship project 9 and Strategic objective 3 Business Plan project Ref 3. Securing gas transportation arrangements for NI post 2021

Firmus energy would welcome further information on the scope of possible changes to be implemented under this project.

Strategic objective 2 project Ref 5. Implement a comprehensive retail energy market framework (REMM)

Firmus energy support this and have provided input into discussions and testing of REMM. We will continue to work with UR and trust that this will lead to an efficient and effective approach to market monitoring.

Strategic objective 2 project Ref 8. Ensure compliance for gas on the EU's IME3 directives (new network codes and delivering a single Transmission System Operator)

Firmus energy will work with UR and TSOs on the implementation of these necessary changes. However, firmus energy requests that UR consider the full implications of the changes including the resulting costs and how they will be reflected in future price controls.

Strategic objective 3 project Ref 4. Working with DETI in relation to scoping the extent to which energy licences could be simplified

Firmus energy would welcome the simplification of licences but feel it is important that the primary duties of each licensee are set out in one place and have a formal system for modification.

Other projects Ref 10. Develop new monitoring and measurement approaches to asset management excellence for the regulated companies

Firmus energy is working to align current asset management practices with the international standard ISO 55001:2014 and, as part of GD17, has submitted a paper to UR on plans for a best in class asset management system.

Other projects Ref 16. Working with DETI to review standards of performance Regulations

Firmus energy will work with UR on this project with the aim of achieving an optimum balance between standards and cost.

Issues Not Reflected in the Workplan

Meter Reading

Firmus energy still believes it would be useful to discuss with UR whether greater economies of scale could be achieved if the meter reading role became a function of the GDN.

We feel this should be discussed as a matter of importance as it will create economies of scale opportunities, will align the gas industry in NI with the NI electricity industry and will result in a more co-ordinated approach to meter reading.

Conclusion

Thank you for the opportunity to respond to this consultation and we look forward to progressing projects with UR in implementing some of the projects within the 2016/2017 forward work programme. Should you have any further questions, please do not hesitate to contact me

Yours sincerely,

A handwritten signature in black ink, appearing to read 'N Martindale', written in a cursive style.

Niall Martindale
Director of Regulation and Pricing