



***Consultation: Gas Network Extensions in Northern Ireland***

***Date: 29 May 2013***

***Contact: Marian Cree- Head of Energy***

***Our (PID) reference number: PD20010 1531***

The Consumer Council welcomes the opportunity to respond to this consultation.

The Consumer Council is an independent consumer organisation, working to bring about change to benefit Northern Ireland (NI) consumers. Our aim is to make the consumer voice heard and make it count.

We have a statutory remit to *promote and safeguard the interests* of consumers in NI and we have specific functions in relation to energy, water, transport and food (the Consumer Council and the Food Standards Agency (FSA) have a memorandum of understanding and the Council's strategic focus on food is primarily in relation to food prices and customer experience). These include considering consumer complaints and enquiries, carrying out research and educating and informing consumers.

The Consumer Council is also a designated body for the purposes of supercomplaints, which means that we can refer any consumer affairs goods and services issue to the Office of Fair Trading, where we feel that the market may be harming consumers' best interests.

In taking forward our broad statutory remit we are informed by and representative of consumers in NI. We work to bring about change to benefit consumers by making their voice heard and making it count. To represent consumers in the best way we can, we listen to them and produce robust evidence to put their priorities at the heart of all we do.

This consultation contains many technical and financial issues specific to the evaluation and assessment criteria associated with the licence award process. In that context CCNI does not wish to comment on a number of these issues as we feel the Regulator is best placed to assess them. However, we do wish to make some general overarching points about the 'gas to the west' project based on two previous responses submitted to the Department for Enterprise Trade and Investment (DETI) consultations on gas to the west as we would wish to reiterate points we have already made and

make some additional ones. We feel that this is justified considering the long term impact for domestic and business consumers and the level of subvention from taxpayers.

## **General Comments**

As the Government Department with responsibility for delivering NI's energy policy and overseeing the spending of the £32m subvention, DETI need to be clear on the outcomes required from the project. We believe that the outcomes for the project must demonstrably contribute to the NI Government objectives defined in the 2010 Strategic Energy Framework as:

- building competitive markets;
- ensuring security of supply;
- enhancing sustainability; and
- developing our energy infrastructure.

To achieve these objectives CCNI are of the view that the outcomes of the project must be to:

- deliver at the lowest possible cost to all Northern Ireland consumers and taxpayers;
- realise an immediate reduction in the annual cost of fuel for all customers within the extension licence area that convert to gas;
- establish targets of converting x% of readily connectable I&C and domestic energy users within x years from home heating oil to gas;
- achieve a quantifiable reduction in the carbon emissions as a result of conversions to natural gas in the extension area;
- deliver an energy efficiency programme for all converted properties;
- target fuel poor households for conversion to gas from home heating oil and Economy 7 heating;

The consumer Council recognises the significant benefits that natural gas

provides over other fossil fuels. The cost for both domestic and I&C customers is significantly lower than heating oil<sup>1</sup> and it produces lower carbon emissions, therefore, we believe that the tendering process needs to focus on the outcomes that are required from the project. The successful bidder will need to demonstrate how it will go about delivering the required outcomes at the optimum price and that it has the competencies to achieve this. The assessment criteria should allow the applicant to devise and present its own plan showing how it will achieve these outcomes.

### **Lessons Learnt**

CCNI would strongly suggest to the Regulator that the lessons learnt from the business model that was originally agreed between Phoenix Natural Gas (PNG) and the Utility Regulator in 1996 are at the forefront of the decision making process associated with the awarding of the 'gas to the west' contract/s. The restructuring of the PNG Business Plan was such, that it required substantial revisions between 2005 and 2007 in order to avoid massive rises in the price of gas to consumers. The outcome led the Competition Commission to conclude, when considering the dispute that eventually emanated from the restructuring, that consumers are paying more than they should be for gas. Unfortunately for NI consumers, the Competition Commission felt unable to intervene to rectify this situation.

Whilst it may be difficult to confidently predict future gas prices and geo political events etc, the Regulator needs to be able to assure consumers that, the outcomes that Northern Ireland consumers want from this project (cheaper fuel and security of supply) will be given a significant weighting in the evaluation and assessment process.

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<sup>1</sup> On average consumers using oil spend an estimated **£657** more annually than the average gas consumer. <sup>1</sup> CCNI calculation using Sutherland Tables January 2013 and Consumer Council oil survey average 1 April 2012 – 31 March 2013.

## **Criteria**

### *Initial assessment criteria*

The Consumer Council agrees with the Regulators initial assessment criteria. A key requirement within the Management & Operational Capability is 'delivering to required technical, regulatory and statutory requirements' and 'managing to specified operational standards'.

### *Cost*

The cost of the project must be balanced with the robustness of the applicants plan on how it will recover those costs. The cost of the build of the project and the ongoing operational costs are closely linked with the Operational Business Plan in both the Transmission and the Distribution strands of the tendering process. In the Distribution strand the Plan to maximise connections is also of crucial importance to the success of the project.

Whilst we agree that cost is crucial it should not be viewed in isolation from the required outcomes. We are unclear exactly what 'Applicant Determined Cost' means in this context and how differences between applicants quoted costs will impact on the actual ongoing cost that consumers will be required to pay to convert to and use natural gas. The applicants must be required to demonstrate this.

### *Maximising Connections*

Maximising connections is key to the success of the project. Large volume connections are critical to the economic bedrock for the project. However, the highest possible number of domestic connections is also crucial to tackling fuel poverty which runs at 42 per cent in NI rising to 68 per cent in

rural areas. These statistics are significant in the context that the catchment area for gas to the west is mainly rural.

CCNI notes the Regulators comments on the broad policy options to inform an appropriate connections policy in going forward. CCNI supports the view that consumers need to be protected from the risk of funding stranded assets. Therefore CCNI welcomes the statement in the consultation of the Regulators intention to bring forward proposals for a further consultation on a revised connections policy in due course.

### **Operational Business Plan**

The sections on the 'Operational Business Plan', 'Maximising connections' and 'Innovation and Technology' are where the applicants should be required to demonstrate how they will achieve the required outcomes and objectives that have been determined for the project.

There are a number of specific items that we would want to see as being essential criteria:

1. The applicant must adopt and fully implement an industry recognised asset management system, such as PAS55;
2. The applicant must be able and willing to deliver an efficiency programme targeted at fuel poor households;
3. The targeting of vulnerable and fuel poor consumers for connections;
4. That the applicant demonstrates a viable strategy that will ensure that 'bedrock' large volume customers commit to gas.

### **Rate of Return**

We believe that it is appropriate that applicants compete on Rate of Return in order to provide the lowest cost for consumers. However, we would

reiterate that applicants must be clear on the outcomes that they will be required to deliver and demonstrate how they will do so at the Rate of Return they propose. Consumers are entitled to know how much they are expected to pay and what they are paying for.

## **Regulatory model**

Regarding the distribution regulatory model we are surprised that the Regulator is proposing a 'price-cap' model based on volume. Early indications from DETI had suggested that they would propose a 'revenue cap' based on connections.

We believe that this decision should be based on which model would deliver the priorities of the Strategic Energy Framework most effectively. For the Consumer Council, tackling fuel poverty is a priority for Northern Ireland energy policy. We believe this would be best served by a model that has increasing connections as its primary driver. The more, and sooner that domestic consumers switch to gas the sooner we will see a reduction in fuel poverty in NI. We would also point out that designing a model that provides incentives to increase the volume of gas used is counter intuitive to achieving the aims of reducing energy use, improving energy efficiency, lowering carbon emissions, tackling fuel poverty and ensuring security of supply.

However we are cognizant of the need to capture large volume gas use for the project to be feasible. We would suggest that the Regulator and DETI may wish to explore if a hybrid model is possible where incentives can be weighted toward volume in the early years and switched to connections in following years once a large volume base load has been established.



The Consumer Council

# ***Making the consumer voice heard and making it count***

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