



The Consumer Council

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Ref: PD20090283

To: Michael Campbell
Michael.Campbell@niaur.gov.uk

Dear Michael,

Re: Proposal for the Power Procurement Price Control

The Consumer Council is a Non-Departmental Public Body set up in legislation to safeguard the interests of all consumers, and particularly the vulnerable and disadvantaged. The Consumer Council is an independent organisation which operates to promote and protect the consumer interest. The Consumer Council welcomes the opportunity to respond to the Utility Regulators consultation on Proposal for the Power Procurement Price Control.

The Consumer Council would like to see a transparent price control mechanism, that ensures that cost savings that the business can achieve are maximised and swiftly passed onto the consumer, and that PPB is run in an effective and financially viable manner.

We believe that the Utility Regulators approach to this price control has been diligent and robust and that the proposals do aim to minimise the cost of the PSO to the consumer whilst maintaining the viability of the company.

The Consumer Council has the following comments to make:

Duration of the New Price Control

Considering the lack of certainty around the possible early cancellation of legacy contracts we believe that it is prudent that the Regulator reserves the right to re-open the price control in November 2010, if cancellation goes ahead.

Incentive

Previous PPB price controls up to the start of the SEM did not produce as great a benefit to the consumer as we would have like to have seen. We believe that the current incentive scheme that ties PPB's profit to its ability to effectively manage the PPA contracts and associated market activity on behalf of the Northern Ireland consumers is a step forward. We would hope that as a result of this the Northern Ireland consumer

will start to see a reduction in the overall cost of the PSO, as an element of the final tariff.

The Consumer Council would expect as part of the underlying incentive scheme, that the company is challenged, year on year, to improve its management of the PPA contracts and its associated market activity. However, if the company is able to exceed the 90% baseline, the decision to leave the baseline figure at £4.345m (albeit with additional costs added), does not appear to continually encourage the company to achieve optimum performance.

We suggest that the Regulator may wish to consider how any improvements in the management of the PPA contracts can be consolidated, and built upon for future years. In particular we would like to know if the Regulator has plans to review and update the objectives and target/reporting method to ensure that the company is continuously challenged to make efficiencies.

Information on the results of the incentive scheme should be made publicly available as soon as possible within any restrictions that may exist on commercial confidentiality.

Risk

The Consumer Council agree that as PPB is able to fully pass on its costs to the Northern Ireland consumer it is an extremely low risk business.

Conclusion

Any new price control proposal must have as its primary aim the minimisation of cost to the consumer. The final decision, and the mechanism chosen, must be fair and transparent to the consumer, so that the costs are fully understood.

Please contact me if you wish to clarify any aspects of this response.

Yours Sincerely,

Richard Williams,
Senior Consumer Affairs Officer