

The Utility Regulator's Consumer Protection Strategy

This paper provides the Phoenix Natural Gas Ltd. ("PNGL") response to the consultation on the Utility Regulator's ("UR") Consumer Protection Strategy 2015/16 to 2019/20.

PNGL agrees with the four strategic objectives detailed in the Consumer Protection Strategy and provides comment on specific activities identified under each of these objectives below.

PNGL advocates the protection of the long-term interests of consumers and therefore welcomes this opportunity to work with UR and the wider energy industry to develop UR's Consumer Protection Strategy.

PNGL would however advise caution; whilst protecting consumers lies at the heart of UR's role, it is important that UR balances the outcomes of its activities (and those of industry) with the cost of undertaking those activities. These costs are ultimately met by consumers and it is therefore vital that the benefits of undertaking an activity outweigh its cost.

PNGL looks forward to the development of a balanced Consumer Protection Strategy and is happy to meet with UR to discuss any queries raised following this response.

A focus on affordability

Firstly it is vital that we separate the two issues of (i) energy theft; and (ii) engagement between consumers and companies to prevent debt accrual.

Energy theft

PNGL has in place robust procedures for dealing with meter and supply tampering and stolen meter issues. The current PNGL processes ensure that the safety and integrity of the network is maintained as well as providing a uniform and consistent approach for dealing with revenue protection issues with all Gas Suppliers.

In developing its procedures, PNGL has invested a significant amount of time on engagement with all key stakeholders, both inside and outside the gas industry, to aid understanding on the potential impacts of meter tampering. PNGL believes this approach continues to minimise the number of instances which occur despite the significant increase in the number of connections to the gas network.

The approach employed by PNGL to this important area of asset management is also viewed by Network Operators in Great Britain and Ireland as extremely effective and is seen as possible best practice for dealing with these types of events. Indeed Ofgem's proposal for Gas Suppliers in dealing with revenue protection issues suggest utilising one of the key aspects of PNGL's policy whereby confirmed multiple tampering events result in permanent disconnection from the natural gas network (unless stringent criteria for reconnection is agreed thereafter).

While PNGL has the appropriate procedures in place for dealing with meter tampering and stolen meter issues, PNGL would welcome the opportunity to work with other Northern Ireland utilities to raise consumer awareness of the dangers of meter tampering and to help others develop similar processes for dealing with meter tampering and energy theft. PNGL therefore believes that the appropriate outcome for this workstream should be a more informed consumer.

Engagement between consumers and companies to prevent debt accrual

The main sources of fuel for customers' homes before the introduction of natural gas in Northern Ireland were coal and oil. As customers were used to paying for their fuel supply on a regular basis, they wanted the option of paying for natural gas in the same way. There was little stigma attached to this payment method in Northern Ireland (in contrast to the position in Great Britain). PNGL therefore worked hard to introduce a Pay As You Go ("PAYG") metering as a positive solution for customers. PAYG metering proved a very popular solution for natural gas customers. Today, on average, two out of every three new meters installed in PNGL's Licensed Area are PAYG.

PNGL would welcome improved communications and engagement between stakeholders on the benefits of PAYG metering and in particular, their use in the prevention of debt accrual. For example in its final determination of the GD14 price control for Northern Ireland's Gas Distribution Networks for 2014 – 2016, UR acknowledges the benefits of prepayment metering by continuing to allow one free meter exchange from credit to prepayment per year; consumers are no longer entitled to a free meter exchange from prepayment to credit¹. It is important that stakeholders work together to increase consumer awareness and knowledge of the benefits of prepayment metering and to educate consumers on tariff comparisons. This will ensure that consumers are more informed and engaged and not disadvantaged through lack of information.

Equal access to utility services

PNGL is mindful of the needs of consumers, in particular accessibility issues and communication protocols for major incidents. Unfortunately in some instances PNGL has little influence on the market e.g. the availability of special adaptors for consumers. PNGL has however implemented a number of innovations on its network and continues to seek innovations to benefit its network for the benefit of consumers in Northern Ireland e.g. introducing a PAYG meter which was simpler to use, less expensive to build, and less problematic with regards operation than the traditional prepayment meter.

PNGL is also mindful of the need for appropriate lines of communication with Gas Suppliers and consumers in the event of a major incident or other significant supply issue. PNGL liaises regularly with Gas Suppliers (i) to ensure the accuracy of the 24 hour contact detail information on record and (ii) uses emergency exercises to ensure proper lines of communication exist between Gas Suppliers, PNGL and other Network Operators. Furthermore PNGL has a stringent market entry process which ensures that Gas Suppliers who enter the market have in place the appropriate emergency procedures.

Empowerment through education, transparency and responsibility

Switching

Competition in the natural gas domestic market in the PNGL Licensed Area commenced in 2010. In 2014 Cornwall Energy, on behalf of UR, undertook an assessment of the effectiveness of the Northern Ireland retail markets for electricity and gas. Cornwall Energy concluded:

¹ with the exception of vulnerable consumers (as defined in the gas supply licences) who are still entitled, via their Gas Supplier, to a free meter exchange from PAYG to credit

"From the quantitative and qualitative information we have gathered and analysed, we conclude that competition in the NI energy retail markets is becoming established, and delivering benefits to customers that have switched [...]"

We believe that overall NI has achieved reasonable levels of switching given its context of deregulation. Indeed rates in the period following the emergence of competition in the domestic and smaller business markets once new entry occurred were good, although these have slowed as the pool of active switchers has diminished and in the absence of the emergence of further alternative providers. There has also been steady erosion of the incumbent's market share in both electricity and gas. Indeed switching levels and loss of market share by the incumbents compare very favourably to other small markets with a similar length of experience of liberalisation within the EU.

The incumbent's market share in both sectors remains high, and with few active suppliers conditions exist that are conducive to tacit coordination. In this context we have noted the discount approach to pricing adopted by competing suppliers where they specifically price their offerings relative to the regulated prices applied to the incumbents. However, this is a rational approach to price setting that we would expect to see in relatively immature markets, and we have not identified any customer detriment arising from it.

Furthermore, market size will continue to limit the number of suppliers who can viably compete given the obvious limits on customer acquisition and the high level of fixed costs associated with market entry. These constraints are greater in gas than electricity markets given very low existing levels of gas penetration.

It is likely that most price sensitive customers will already have switched. Switching rates in both electricity and gas are unlikely to change significantly and might even continue to tail off. All suppliers face similar costs and achievable customer savings from switching are unlikely to change dramatically. Technology change is unlikely to be a significant factor over the near term, and indeed could raise entry costs. There is little scope for domestic customers to switch back to the incumbents given that all new entrants price at a discount to the incumbents in both gas sectors. Aggressive competition in other jurisdictions has been enabled by falling commodity prices and the ability to make dual fuel offerings, but these conditions are absent from NI."²

Importantly Cornwall Energy found that most price sensitive customers will already have switched and that switching rates are unlikely to change significantly and might even continue to tail off. On this basis increased retail market activity is not an appropriate outcome to assess the benefit of any work to develop education on switching.

Despite this, PNGL remains supportive of continuing consumer education and continues to work with other organisations to increase consumer awareness and knowledge of the switching process in the natural gas market.

Consumer factsheets

PNGL has developed its website to ensure that it provides an accessible platform for finding out information about its business and its services. This includes giving consumers transparent, easy to understand and easy to access factsheets about key aspects of its services e.g. (i) its Consumer Information Pack which provides

² Review of the Effectiveness of Competition in the Northern Ireland Energy Retail Market, Cornwall Energy, November 2014

general information to domestic and business consumers about the business and the services they can expect to receive; (ii) its note which provides consumers with everything they need to know about making an enquiry and also describes PNGL's complaints handling procedure in the event that they wish to lodge a complaint; and (iii) its Sales Team which includes highly trained and experienced Energy Advisors who visit over 10,000 households each year and, when introducing householders to the benefits of natural gas, provide a leaflet to help consumers choose a gas supplier as well as clarifying the role³ of Gas Suppliers and network companies. PNGL would suggest that it may also be possible to provide such householders with details of any care registers offered by suppliers.

Furthermore the natural gas industry is working together to develop appropriate Supplier of Last Resort ("SoLR") procedures which allow for the sharing of consumer information at the time of a SoLR event. This includes the sharing of information on vulnerable consumers⁴. PNGL would suggest that the approach adopted for the sharing of information in a SoLR event could be extended to other areas such as the change of supplier process.

Standards of Performance

PNGL is also working with stakeholders to educate consumers on their rights and responsibilities in relation to minimum levels of performance. The Phoenix Natural Gas Notice of Rights explains the individual standards of performance that consumers can expect from PNGL and outlines the compensation they could receive if it fails to deliver these standards. GSS and OSS for the natural gas industry have only recently been reviewed. In fact, 2015 will be the first full reporting year. PNGL does not therefore see any merit in updating/reviewing existing GSS policies for the natural gas industry at this stage and will continue to work alongside UR to ensure that appropriate reporting mechanisms are in place for 2015.

Providing leadership through being a best practice regulator and working with others

PNGL welcomes the opportunity to work with UR and to participate in working groups to improve UR's understanding of the challenges faced by the natural gas industry. PNGL also welcomes UR's commitment to being a best practice regulator and working with others. PNGL would however advise caution; it is important that UR balances the outcomes of its activities (and those of industry) with the cost of undertaking those activities. These costs are ultimately met by consumers and it is therefore vital that the benefits of undertaking an activity outweigh its cost.

³ Paragraphs 6.4.7 and 6.4.10 of UR's consultation notes this as one of the key recommendations regarding domestic consumers identified in Cornwall Energy's Review of the Effectiveness of Competition in the Northern Ireland Energy Retail Market ("**the Cornwall Energy Review**")

⁴ Paragraph 6.4.7 of UR's consultation notes the need for more work with network companies with regard to clarifying their role in identifying and interacting with vulnerable consumers as one of the key recommendations regarding domestic consumers identified in the Cornwall Energy Review

Other issues

PNGL would also like to add the following points in relation to the Consumer Protection Strategy:

- PNGL would welcome further discussion with UR on the definition of “vulnerability”. Firstly PNGL would like to clarify in paragraph 3.1.3 of the consultation that those on low income are not included in the definition of a vulnerable consumer in the gas supply licences. Secondly PNGL is concerned with the comment in paragraph 3.1.12 that vulnerability is *“not necessarily a permanent characteristic”*. Whilst this statement is true, utilities can only hold accurate information at a given snapshot in time and indeed Network Operators are very much reliant on receipt of this type of information from Gas Suppliers, therefore it is difficult to see how any utility business could be aware of a consumer’s changing circumstances; the onus has to be on the consumer to contact their supplier and advise of changed circumstances;
- Paragraphs 6.4.8 of UR’s consultation notes that *“meter repositioning should be explicitly the role of the network company”* as one of the key recommendations regarding domestic consumers identified in the Cornwall Energy Review. It should be noted that the repositioning of meters can be undertaken by PNGL (where it is technically viable to do) upon request by a Gas Supplier, the costs of which are set out in its Connection Policy; this is supported by Gas Supplier licences which make Gas Suppliers responsible for repositioning meters free of charge to persons who are of Pensionable Age or Disabled or Chronically Sick; and
- Paragraphs 6.4.9 of UR’s consultation notes the proposal to *“extend emergency credit for customers in extenuating circumstances and suggested further investigation into this matter”* as one of the key recommendations regarding domestic consumers identified in the Cornwall Energy Review. It should be noted that this may not be practicable for natural gas PAYG meters; PNGL’s initial view is that extending emergency credit would need to be addressed:
 - At the meter manufacturing stage; or
 - By an Engineer who would need to visit the property to add the emergency credit onto the meter in the case of quantum meters.These options are not likely to be cost effective.