

**The Utility Regulator  
Development of our 5 year Corporate Strategy  
Consultation on Key Issues**

**Phoenix Natural Gas Group Response**

**Consultation Question 1:- We would welcome views as to whether there are other significant challenges which we ought to have reflected here.**

Although the consultation details the main challenges, the Phoenix Natural Gas Group (Phoenix) believes that this section should place more emphasis on the spiralling energy costs which are making a significant impact upon households and businesses across Northern Ireland (NI) as discussed in section 3.2(i). While the consultation highlights that increasing fuel prices will play a part in the increasing number of households falling within the fuel poverty bracket in NI, record fuel prices mean that many consumers are, for perhaps the first time, being forced to assess their own energy requirements alongside the challenges brought by our changing climate. We believe that the challenges should address some of the measures that may be taken by all consumers to mitigate the impact of increasing energy costs now and in the future e.g. by educating consumers about the measures that can be taken to improve the thermal efficiency of their home.

We accept that our reliance on gas for power generation may give rise to security of supply issues but would also highlight that we are almost totally reliant on imports of fuels to heat our homes, with oil remaining the predominant fuel; just over 10% of households in NI are using natural gas for central heating. We have commented on a number of occasions the significant opportunity that exists in NI to harness the carbon dioxide (CO<sub>2</sub>) benefits of switching to natural gas unlike in Great Britain (GB) where the natural gas market is more mature. When it is considered that a typical household, when converting to modern high-efficiency natural gas heating systems from older heating oil systems, is reducing its central heating carbon footprint by more than 50%, the benefits are not in dispute. The evidence from businesses and domestic households in NI over the last 10 years has demonstrated significant savings on energy and carbon emissions through their switch to natural gas. Natural gas customers have reduced their emissions of CO<sub>2</sub> into the atmosphere by over 1.7 million tonnes to date.

The first paragraph highlights the environmental challenges such as pricing fossil fuels to reflect carbon content. This will also impact upon the price paid by consumers and the Utility Regulator (UReg) will have to ascertain how to best amalgamate each of these challenges in an effort to protect the interests

of consumers now and in the future. This will involve a wide cross-section of the energy sector and will in essence be UReg's biggest challenge over the next few years.

**Consultation Question 2:- We would welcome views as to whether there are other significant opportunities which we ought to have reflected here.**

Arguably the opportunities highlighted within this section are relevant; however we are surprised that UReg has not focussed on its duties with respect to the natural gas industry when assessing these opportunities. UReg's principle duty is to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in NI and whilst significant milestones have been reached in the last ten years, the network is still relatively immature and there is considerable scope to increase our diversity of supply.

While the other opportunities are indeed significant, these should not divert attention away from UReg's primary goal which may in turn hinder the further development of the natural gas network. In a little over 10 years, NI has developed an economic, efficient and co-ordinated natural gas network. Advances in boiler technology and a more educated consumer have meant that NI is setting an example in terms of energy efficiency and consumers are benefiting from lower average consumptions than in GB.

As we have highlighted in question 1, just over 10% of households in NI are using natural gas for central heating. However, the market penetration of natural gas is severely skewed on a geographical basis. The Phoenix Licensed Area is the more mature and natural gas is currently available to over 260,000 properties with around 44% connected to the network. At the end of 2001, just over five years after being granted its licence, Phoenix had made natural gas available to around 65% of the properties detailed within its Licensed Area. We believe that this is a benchmark which the Authority should take into account in considering the development of the natural gas industry in NI and Phoenix is willing to play a role in accelerating the availability of natural gas throughout NI.

We believe that a significant opportunity exists for UReg to focus on developing a strategy to promote the environmental benefits of natural gas mentioned in our response to question 1, and complete the timely development of the natural gas network and that this should be reflected within this section. UReg's sustainability consultation paper<sup>1</sup> states that "Over 110,000 customers have converted to natural gas, however this equates to only 44% of customers to whom gas is available and only 12% of total households in Northern Ireland." There is clearly an opportunity in that just

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[Sustainable Development - The Regulator's Role - Consultation Paper - March 2008](#)

over 10% of households in NI use natural gas but in GB this is just over 80%<sup>2</sup>. UReg has a clear role to play, and has a statutory obligation, in exploiting this opportunity to its fullest potential which will bring significant environmental and social benefits to NI. UReg is therefore in a unique position to develop the natural gas industry by increasing the take up of customer connections in the existing licensed areas and by pro-actively working with interested parties to extend the network further throughout NI. Public campaigns initiated by UReg promoting natural gas in the same public way that Action Renewables was promoted by DETI could only have a beneficial impact on the development of the industry.

**Consultation Question 3:- We would welcome views as to whether there are additional significant “context” issues which we ought to have reflected in this chapter but have omitted.**

Phoenix believes that this chapter highlights the significant context issues that will impact upon the various utilities in the coming years.

**Consultation Question 4:- We would welcome views as to whether there are significant issues within the context issues already identified which we should have noted.**

Since the start of 2008, UReg has issued a number of consultations covering a wide range of issues within the energy sector.

Phoenix is actively contributing to the recent developments regarding Common Arrangements for Gas (CAG) and we have also provided various responses to UReg’s consultations on energy retail competition and sustainability strategy. Phoenix is also involved in the Smart Metering Steering Group.

We welcome UReg’s continuing policy of consulting on such areas and the opportunity this provides for Phoenix and other utilities to comment on UReg’s proposals and provide their recommendations. We will continue to provide UReg with as much information as we can to ensure that UReg has all the necessary information to develop and implement effective policies.

We therefore believe that while the Corporate Strategy should identify the significant context issues, it is more important to ensure that UReg’s policy of consultation continues to ensure that all significant issues are addressed by the appropriate forum or via the relevant consultation response.

Spiralling energy costs mean that many consumers are, for perhaps the first time, being forced to assess their own energy requirements. As mentioned in our response to question 1, we believe that while this will undoubtedly have a significant impact upon those on low incomes, more can be done to address

the issue and advise all consumers on how they may mitigate the impact now and in the future.

Our response to question 2 also highlighted the significant opportunities that we believe exist in the expansion and development of the current natural gas network in NI.

With regards to UReg's own organisational development, Section 2.2 lists the five principles of best regulatory practice. We are of the opinion that one key principle is missing i.e. timeliness. It is vital that UReg understands the impact that delays in decision making by the Regulator has on the companies being regulated.

**Consultation Question 5:- We would welcome views as to whether there are other significant “wholesale” issues which we ought to have reflected here.**

We note that in order to reduce our overall exposure to high and volatile costs, one policy direction may include extending our use of renewable energy technology. As indicated above, a typical household, when converting to modern high-efficiency natural gas heating systems from older heating oil systems, is reducing its central heating carbon footprint by more than 50%. As stated in our response to UReg's sustainability consultation, Phoenix believes that switching to natural gas remains the most economically and environmentally sensible action for NI today and the continued promotion of high efficiency and well controlled systems by Phoenix is ensuring that customers can minimise their use of energy and therefore mitigate their exposure to fuel costs. Phoenix strongly believes that NI is yet to harness the environmental benefits of natural gas unlike in GB and that natural gas is the bridge to sustainable renewable energy, but that goal is still some decades away.

A further 'wholesale' issue is the relative lack of available storage facilities in comparison to our European neighbours which leaves the United Kingdom exposed to a much larger degree to short-term fluctuations in wholesale energy markets. It may be appropriate for UReg to reflect on what contribution it can make to placing NI at the forefront of contributing to the resolution of this issue.

**Consultation Question 6:- We would welcome views as to whether there are other significant “network” issues which we ought to have reflected here.**

As we have already highlighted, Phoenix is actively contributing to the recent developments regarding CAG and has provided various responses to UReg's consultations on energy retail competition and sustainability strategy. Phoenix is also involved in the Smart Metering Steering Group. These consultations and discussion forums have provided us with the opportunity to comment on

the various proposals and we therefore believe that the Corporate Strategy provides an adequate synopsis of the “network” issues raised.

We particularly welcome UReg’s indication that it is considering making energy network extension issues a priority. We have already highlighted the environmental benefits above and as stated in our response to the sustainability consultation, Phoenix believes that developing the natural gas network into new areas will significantly reduce NI’s carbon footprint.

Our distribution network is less than 1km to the boundary of the area of redevelopment at the Maze and we believe there will be significant potential to develop the natural gas network in this area.

There is an even greater opportunity to develop the network at Hillsborough and along the Downpatrick economic corridor. However without some form of economic intervention, this potential will be wasted. An initial review of the costs indicates that a relatively low level of ‘subsidy’ support could guarantee the rapid rollout of the natural gas network to Hillsborough and Downpatrick and allow households in these areas access to the environmental benefits of natural gas widely available to households in the Greater Belfast Area thereby reducing NI’s overall carbon footprint.

As we have already suggested in relation to question 2, Phoenix also believes that there is significant merit in accelerating competition in the natural gas market throughout NI. Currently Phoenix Supply Ltd is unable to supply gas in the towns and cities supplied along the North West and South North pipelines. Phoenix Supply Ltd is providing consumers a competitively priced product and offers excellent customer service alongside its flexible range of contracts and would welcome the opportunity to offer these services in areas outside its current Licensed Area.

In addition Phoenix Distribution (Northern Ireland) Ltd is heavily incentivised to meet challenging connection targets in the Owner Occupied and small I&C tariff sectors. Phoenix would welcome confirmation that a similar mechanism is in place for the 10 towns outside its licence area and that connection targets are set for firmus also. Overall Phoenix would welcome working alongside UReg, Government and other stakeholders to examine the feasibility and options to accelerate the roll-out of natural gas in NI.

**Consultation Question 7:- We would welcome views as to whether there are other significant “retail” issues which we ought to have reflected here.**

We largely agree with the UReg assertion that NI should have retail market structures that are tailored and are best for our particular circumstances. However, competition has developed in other regions and there are valuable lessons which policy and decision-makers in NI can learn from these markets. It is our view that we would be remiss in ignoring these valuable lessons.

We note UReg's consultation on the development of retail markets in NI and both Phoenix Distribution (Northern Ireland) Ltd and Phoenix Supply Ltd have provided a full response in respect of this consultation.

Again the CAG forum, Smart Metering Steering Group and consultations on energy retail competition and sustainability strategy have provided us with the opportunity to comment on the various proposals.

**Consultation Question 8:- The Utility Regulator has limited resources, both as a whole and also within each operational Directorate, to deliver priorities in the coming 5 year period. We would welcome early views from respondents on the urgency, importance and thus prioritisation of strategic goals and work priorities.**

As stated in our response to question 6, energy network extension issues should be prioritised. Phoenix is also actively engaged in the current process of investigating the potential for an all-island natural gas market and awaits the outcome of this process to ascertain if there is an opportunity to harness any benefits of adopting appropriate all-island structures. It is vital that clear cost benefit analysis of the opportunities are undertaken at the appropriate time before any decisions to implement proposals are taken. One of the key principles of the all-island project is that no jurisdiction should lose out. This must be delivered.

We also believe that energy efficiency will play an important role in bridging the gap between the energy requirements of current and future customers and that action should be taken sooner rather than later. Sustainability should therefore appear high on UReg's agenda.

As suggested in our response to the sustainability consultation, UReg's considerable breadth of knowledge of regulated utilities is without question, however its costs are borne by electricity consumers and only a small cross-section of the central heating market i.e. those using natural gas. 72% of households in Northern Ireland are using oil for central heating and these companies are outside UReg's remit. We therefore believe that every decision covering overall energy policy should continue to be led by Government with appropriate guidance from UReg and the wider industry to ensure that the costs of implementing the changes are borne by all consumers and not imposed on consumers of regulated utilities only.