



***Consultation: Northern Ireland Electricity Transmission and Distribution Price Controls 2012-2017***

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## **Introduction**

The Consumer Council welcomes the opportunity to respond to the Regulator's Draft Determination of Price Control for Northern Ireland Electricity for the period 2012 – 2017.

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 Consumer 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.

## **Background**

Like the rest of Europe, Northern Ireland is facing potentially conflicting policy aims for its energy sector. With energy prices rising, fuel poverty is growing and businesses and industry are struggling to compete in an international market. However, the need to keep energy prices as low as possible has to be shared with the need to create an energy industry that is both economically and environmentally sustainable. The requirement to increase the amount of energy from renewable sources will only increase energy costs, at least in the short run, due to the impact of carbon taxes and infrastructure development costs.

## **Consumer Context**

It is important to understand the context for NI consumers against which the Northern Ireland Electricity (NIE) Price Control is taking place. Northern Ireland consumers, along with those living in other areas of the UK have seen their overall spending power diminished in recent years. A recent report from the

Joseph Rowntree Foundation<sup>1</sup> has examined the impact of the economic downturn on households in Northern Ireland since 2009.

The report found that 22% of people in Northern Ireland were living in poverty and that the number of retired households living in poverty had increased from 55,000 to 70,000. It also confirmed a higher percentage (21%) of pensioners live in poverty in Northern Ireland compared to their counterparts in the rest of the UK where the figure is 16%.

The Consumer Council's own research<sup>2</sup> shows that half of the adult population here is worried about making ends meet and over half are worried about making ends meet in the future. Furthermore, only half are managing to keep up with bills and credit without difficulties and more than one in four stated that they are worried that they, or someone in their household, will lose their job within the next year.

The Consumer Council acknowledges that reliance on home heating oil, as a key energy source for NI homes, is a major contributor to high energy bills. Nonetheless, the cost of electricity in Northern Ireland is a crucial issue as consumers already face the highest energy bills in the UK, (see Table 1).

**Table 1 Heating Fuel Bills NI and GB**

	<b>Average bill 2001</b>	<b>Average bill 2011</b>	<b>% increase 2001 - 2011</b>
Northern Ireland	£768.55	£2,368.71	208%
Great Britain	£541.33	£1,258.09	132%
Difference	£227.22	£1,110.62	389%

*Source: DECC, CCNI, Sutherland Tables, Consumer Focus, Power NI, Phoenix Supply Limited, firmus energy*

The increasing cost of energy is affecting nearly everyone in our society. Around 302,000 households in Northern Ireland are struggling to heat their homes to an adequate level and at 44 per cent NI's level of fuel poverty is by far the worst in any part of Great Britain and Ireland.

In June 2012, the Consumer Council surveyed just over 1000 electricity consumers across Northern Ireland on what is the most important thing that they want from their electricity supply. Table 2 details the responses received when consumers were asked:

*Thinking about your electricity supply, which of the following would you say is most important to you? And which is second most important?*

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<sup>1</sup> Monitoring poverty and social exclusion in Northern Ireland 2012, Joseph Rowntree Foundation

<sup>2</sup> Consumer Proficiency Research, 2011/2012. The Consumer Council

	<i>1<sup>st</sup> priority</i>	<i>2<sup>nd</sup> priority</i>
<i>The lowest possible price</i>	69%	20%
<i>A highly reliable supply with the lowest possible number of power cuts</i>	19%	52%
<i>That as much electricity as possible is generated by renewable means, i.e. from sustainable sources such as wind power</i>	7%	18%
<i>Don't know</i>	5%	10%

Table 2: Priorities for electricity consumers, June 2012 (Base: 1020)

The lowest possible price can be seen as the clear priority for most consumers. However, it can also be seen that a significant number of consumers regard having a reliable supply as their first or second priority.

### **Strategic Context**

DETI's Strategic Energy Framework recognises these consumer priorities (cost and reliability) setting them in a long term strategic context aligned to four key energy goals for Northern Ireland:

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

The NIE (RP5) Price Control is a key element to deliver both the consumers' short to medium term priorities as well as the Strategic Energy Framework's long term energy goals. It sets the level of **24 per cent of the consumer's energy bill**, the level of network maintenance and signals the amount of electricity infrastructure that will be built (or replaced).

### **Regulatory Framework**

In the context of meeting and representing consumers' views The Consumer Council undertook research to understand how comparable electricity networks are regulated. GB network operators broadly face the same operational and strategic issues as NI. The GB Regulator, Ofgem, has undertaken significant work in recent years to further develop its model for regulating Utilities with a specific focus on benefits to the consumer. The resulting RIIO model<sup>3</sup>, has seen a greater emphasis on outputs and incentives

<sup>3</sup> <http://www.ofgem.gov.uk/Networks/rpix20/ConsultDocs/Documents1/RIIO%20handbook.pdf>

that are aimed at achieving them, in order to facilitate required investment at the lowest possible cost to the consumer. The framework mimics the competitive markets by rewarding companies that deliver on the outputs valued by consumers, and penalising those that don't.

The RIIO approach describes six main output categories:

- Environment;
- Reliability;
- Connections;
- Customer Satisfaction;
- Safety; and
- Social Obligations.

Under the RIIO model a heavy emphasis is placed on the Business Plan submitted by the network company. The Business Plan requires the company to demonstrate that its plans are designed to deliver outputs that are based on genuine and ongoing engagement with consumer representatives and other stakeholders. This consumer engagement is as much a responsibility of the company to undertake as it is of the Regulator.

The Business Plan also requires the company to detail and justify its costs. The business plan has to be specific in what outputs companies will deliver on, and what consumers will get for their money. Performance is then benchmarked against delivery on those outputs, which allows for networks to think differently about how to meet consumer needs – e.g. deferring traditional investment or meeting requirements in different ways.

Consumers expect to benefit from a robust regulatory process which provides confidence and clarity together with clear outcomes for the significant investment (coming from their bills) involved. Throughout this response the Consumer Council will detail specific areas where we believe the regulatory process has not met this expectation.

Additionally there are elements of the determination which the Consumer Council simply cannot make a judgement whether to support or not. Because for some issues information is inconclusive, is deemed subjective, or is contested (all equally undesirable) this means a full assessment and position for the Consumer Council is not achievable.

Uncertainty such as this should not exist in a Price Control process, especially with the model in NI so heavily concentrated on economic regulation at the expense of a sufficient focus as outlined above on customer, environmental and safety aspects.

## **Summary & Key Points in response to Draft Determination**

### ***Overall cost to consumers***

The cost of electricity is the key priority for consumers but needs to be balanced with their second priority relating to reliability of supply. The cost savings that the Regulator's proposals represent for all classes of consumers, when set against the NIE proposals, are welcome. However, the extremely significant difference (£776 million compared to £315 million) between the NIE request and the Regulator's draft determination raises concern about the regulatory process, and the accuracy/extent of information used by parties to arrive at these proposed investment levels.

The comments provided by the Regulator in relation to the NIE CAPEX request which suggest it was based on '*subjective engineering judgements*' and '*heavy on opinion*' are worrying. It raises questions both of the company regarding its submission but also of the regulatory framework which did not ensure thorough engagement and clear requirements that information provided should be sufficiently robust.

The significant difference of opinion on investment requirements as well as the uncertainty regarding information quality will be concerning to consumers for this Price Control. However consumers will rightly ask if information is a problem in this Price Control process was it also a problem in previous Price Control processes and if so why has it not been effectively addressed by now?

### ***Regulatory Model***

The Consumer Council would strongly argue that the current regulatory model employed by the Regulator is outmoded when compared to the Ofgem model (RIIO). This has in our view contributed to concerns regarding the accuracy of information and compounded the uncertainty regarding the actual requirements for investment going forward over the next five years. Specifically the NI model lacks outputs, detailed business plans, transparent information and consumer engagement. As highlighted the vast difference between what NIE deemed to be required and what the Regulator deems to be required is a cause for concern and raises issues about the suitability of the current regulatory model.

Price Controls are significant in determining the cost of energy going forward. Consumers should not be put in a position where they are hindered in any way in assessing the complete and detailed information that has informed the Price Control and the subsequent impact of the agreed costs. Unfortunately this Price Control has placed consumers in that very position

### ***Accredited Industry Standards***

The Consumer Council believes the absence of recognised industry standard processes such as PAS55 or existing processes being certified in previous Price Controls has contributed to the lack of information and clear difference of

opinion between the Regulator and NIE. A continued absence of an approved and certified process to support the whole-life management of physical assets within NIE will result in continued uncertainty in relation to the scale of investment required for asset replacement and development.

### ***Outputs***

Consumer focused regulation means being clear on what improvements or benefits are derived as a result of investment programmes. The Consumer Council is concerned that there is not greater emphasis placed upon outputs. Whilst it is important to bear down on costs the consumer needs to know what they will get for their money. Not only should consumers be informed of the expected outputs but actively **involved** in a process where consumers have contributed to setting the outcomes they expect and value. It is absolutely essential that the regulatory process places a much stronger emphasis on engagement with consumers.

### ***Renewables***

As stated in our introduction, the NIE Price Control will play a key part in contributing to Northern Ireland's energy strategy. The Consumer Council supports the Regulator's broad commitment to develop an infrastructure to facilitate an increase in renewable energy. The NI Executive has set a clear policy target for 40 per cent of electricity consumed by 2020 to be derived from renewable energy sources.

The Consumer Council would seek assurance from the Utility Regulator, given its role to support implementation of Government policy, that the determination allowing developments to facilitate renewable energy on a project by project basis will support achievement of the 40 per cent target.

### ***Strategy***

As stated the Regulator has a key role in supporting Government to implement energy policy. It is important that the Regulator confirms that within the current determination, developments on a wide range of strategic issues have been fully considered. These issues include:

- Smart Metering;
- Electric vehicles;
- European interconnection;
- The potential for the export of renewable energy into an interconnected European wholesale electricity market;
- The impact of the planning system in NI; and
- The grid requirements of potential and planned development of renewable heat and renewable micro-generation.

## **Consumer Council Assessment and Conclusions**

To provide further detail on the issues raised within the summary above specific comments on the Draft Determination have been broken into two sections.

**Section 1** – the key strategic issues relating to RP5

**Section 2** – comments relating to specific details/elements of RP5

### **Section 1 – Key strategic issues**

The areas of Capex, Opex and Renewables are of specific concern for the Consumer Council as they represent the three main areas where there is a significant difference of opinion between the NIE submission and the Regulators Determination.

#### **CAPEX**

The Regulator's conclusion that NIE can provide a reliable service for consumers at a cost that is well below that which NIE requested is welcome. However given the concerns which exist over the accuracy of information provided and indeed its robustness it is difficult for the Consumer Council to provide a view on whether we believe the Regulator's position is correct (and effectively balances the issue of cost and reliability in relation to the Transmission and Distribution infrastructure).

This is a vital matter. As a responsible consumer advocate we take the position that the investment in the electricity infrastructure must be given the correct priority to ensure that the 'lights stay on'. This is the same position that we have taken in relation to Water and Sewerage Services and we believe it is a proper and responsible one. It is essential that the need for investment in the infrastructure is properly balanced against the actual cost to consumers of that investment.

The information provided by the Regulator upon which this conclusion is based gives concern about the way that NIE manages its assets, and the regulatory requirements that are placed upon the company.

*The Regulator states 'we concluded that, from the information available, the processes used to build up the submission were based on subjective engineering judgements without sufficient guiding corporate strategy and/or threshold criteria for acceptable risk. This meant that the submission was heavy on opinion regarding the need for investment, but lacked the supporting factual evidence.'*

and;



*'we have not been able to identify any tangible reasons why NIE T&D's request for business as usual capex in RP5 was substantially higher than for a comparable company in GB.'*

and;

*'we do note that NIE T&D's current asset management approach has not been assessed to a recognised standard such as PAS55. We understand that NIE T&D is currently considering implementing PAS55.'*

It appears the difference in Capex requirements between the Regulator and NIE can be, at least partially, explained by different views on physical assets owned by the company and the investment required to maintain and/or develop these. It is the Consumer Council's view that NIE should now be directed to introduce PAS55 by the Regulator in this Price Control. It should be noted that we raised the same issue in our response to the Phoenix Natural Gas Price Control Draft proposals 2012-13<sup>4</sup>. It is unacceptable given the existence of a recognised industry approach to managing assets that this hasn't been introduced in previous Price Controls to provide certainty on investment requirements.

PAS55 is published by the British Standards Institute and is recognised by Ofgem as industry best practice. PAS55 can provide benefits to both the company and consumer. NIE should be required or provided with an incentive to introduce it, at no cost to consumers.

- Network Effectiveness

It appears the Regulator relies primarily on the Customer Minutes Lost (CML) metric to support its assertion that the network is operating well. However the CML is a retrospective metric looking back not forward. NIE needs to adopt a far wider range of outcome metrics that measure the overall performance of the network and engage with customers to develop KPIs

- Information and Data

Questions over the availability and accuracy of information have been a recurring theme throughout this Price Control process. The Consumer Council believes accurate information is a fundamental element of a Price Control process and that this situation has arisen reflects extremely poorly both on the regulated company and Regulator.

The contention by the Regulator that NIE submitted subjective information and an overall lack of detail has been referred to in this submission. If this is the case it not only raises concerns regarding the information requirements placed upon the company but also how the

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<sup>4</sup> Consultation on the Phoenix Natural Gas Limited (PNG) Price Control Draft Proposals 2012-13. ref: PID 938

Regulator has arrived at its determination if this has depended on information which is questionable.

Given the concerns which exist in relation to the current Price Control the Consumer Council must question the extent to which information concerns have been evident in previous Price Controls

It would appear that previous Price Controls have failed to provide a regulatory framework in which NIE was required, or felt it necessary to systematically assess the quality and performance of its network and make decisions that aspired to the most efficient outcome.

For example, the Regulator states that *'the RP4 capex mechanism did not incentivise NIE T&D to take prudent risks with asset replacement'*. This reflects poorly on the Regulator who is, to a certain extent, admitting that this aspect of RP4 did not work. It is also a blatant disregard by NIE of the implications of such negligence on the potential cost to the consumer in going forward. Again it is essential to assess whether the financial implications to the consumer are being effectively considered as they will ultimately have to meet the costs of this asset replacement? Consumers should not have to pay for mistakes by the Regulator and NIE.

Within the Ofgem RIIO model the Business Plan discussed earlier should provide the starting point for detailed data submissions. NIE did publish a Business Plan in April 2011<sup>5</sup> but it appears that this submission lacked the detail required.

Furthermore, the NIE submission does not contain outcomes based on consumer research as RIIO requires. Outcomes should reflect the needs of all stakeholders that depend on the performance of NIE's network. As a consumer representative organisation we are concerned with performance not only on matters that directly impact consumers but also those that do so indirectly.

Finally, we understand that NIE believes the Regulator has only undertaken a limited modelling exercise on a small element of its RP5 investment submission in comparison with the far more detailed approach taken by Ofgem under RIIO. NIE has argued that its RP5 capex plan would withstand scrutiny against an Ofgem type analysis.

## **OPEX**

The Regulator's methodology of establishing a 'base year' of actual audited accounts is sound. The Consumer Council welcomes the proposal of a nine per cent efficiency factor and notes that this is based on a detailed benchmarking exercise carried out by consultants which shows NIE as being

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<sup>5</sup> Transmission and Distribution Price Control for RP5. Capital Investment Requirements for the Fifth Regulatory Period. 4 April 2011

the ninth most efficient organisation compared to GB Distribution Network Operators. NIE will need to provide compelling evidence in order to challenge this efficiency factor.

However, the fact that such a high efficiency factor has been proposed and that the Regulator is suggesting only a two year glide path provides for potentially two scenarios. It may firstly suggest that NIE has been operating relatively inefficiently for a number of years. If this is the case it raises questions of how effective previous Price Controls have been in providing the best outcome for consumers. Secondly such a tight period (two year glide period) could suggest that the Regulator is being unrealistic in the likelihood of the company achieving these efficiencies. In the absence of further information the Consumer Council is unable to determine which scenario represents the actual reality.

The practice during RP4 whereby '*the allowed controllable opex in any year was the actual controllable opex five years previously*' failed to capture in the longer term efficiency gains for consumers. It is therefore appropriate that this practise is abandoned. Any efficiencies the company produces must be shared appropriately between the company and consumer and captured for consumers into the future. This is what would happen in a competitive environment. Regulation is a proxy for competition and must mirror this effect as far as possible.

The Regulator's proposals in relation to 'new opex' costs are generally sound and it is good to see that the Regulator is challenging NIE's cost. However, it could be argued that there is an element of micro-management in the Regulator's approach and the balance must be struck between allowing the company to manage itself and challenging all costs. We would prefer to see more emphasis based on outcomes rather than inputs and this again reflects our concern with the regulatory process adopted in NI as compared to developments elsewhere.

### ***Renewables and Inter-Connection***

The approach proposed by the Regulator to restrict NIE's proposals for facilitating renewable energy is understandable in the context of the absence of the North South Interconnector. By granting allowances on a project by project basis, the problem of creating deferred capex is avoided which is desirable. The Consumer Council believes that in principle the consumer should only be expected to pay for an asset if it exists and when they are receiving a benefit from it.

The Consumer Council seeks assurance from the Regulator that this approach (i.e. project by project) is compatible with the renewable consumption targets as outlined in DETI's Strategic Energy Framework.

It is essential NI consumers have confidence that their money is spent on renewable projects that form part of a coherent NI strategy and deliver value for money. There is no doubt consumers will voice concern that a project by

project basis could become piecemeal, uncoordinated and ultimately cost more due to additional issues regarding finance and economies of scale. The Consumer Council would request the Regulator provides further detail on the benefits of this approach to renewable projects against the potential risks. Particularly in relation to financing renewable projects, we would prefer to see a cost reflective Regulatory Rate of Return combined with an efficiency and service output incentives model.

Furthermore, adopting a case by case approach does create uncertainty for consumers' bills as project costs are added as they arise. This approach is not coherent and may pass higher cost to the consumer. The Consumer Council would urge the Regulator to consider how it can minimise the price uncertainty to consumers.

## ***Section 2 – Comments relating to specific elements of RP5***

### ***Outputs and incentives***

The Consumer Council believes that the Regulator has effectively borne down on the input costs of NIE in its Price Control determination and some relevant incentives are contained within RP5.

The Regulator has signalled its view that its proposals in RP5 are not a complete statement on the framework required to regulate NIE in the future. The Regulator has stated that it intends to review the current Guaranteed Standards of Service (GSS), creating a new GSS for '*worst served customers*', and creating new incentives for distribution loss, health and load indices. This is a welcome development but the Regulator must develop a clear approach for engaging with consumers to ensure it fully understands consumer needs and to test proposed changes to service standards.

Consumers are primarily concerned about the cost of their energy supply. However, as 52% stated reliability as their second priority this suggests consumers are not prepared to accept a service that provides poor reliability, poor customer service, lower safety standards, ignores environmental concerns and is indifferent to the plight of vulnerable customers.

### ***Capitalisation***

In material terms the possibility that the consumer has overpaid up to £118.5 m is unacceptable and if it is the case this must be repaid in full.

This issue is of great concern for consumers both in its potential materiality and what it may reveal about how NIE has been regulated and how it has conducted its business in previous Price Control periods. It is appropriate that this matter is investigated thoroughly and a full disclosure is provided of how this situation may have arisen.

The fact that this has only emerged now when the changes NIE made to its capitalisation practice took place in 2005/06 suggests a weakness in the regulatory process and a lack of asymmetrical information. We will await the

outcome of the Regulator's investigation before considering how this reflects on the internal management at NIE during the period in question.

## **WACC**

The Rate of Return a regulated company is allowed within the Price Control has a direct correlation with the price that it charges its customers. The higher the allowance, the higher the price to customers. It is therefore important that the Rate of Return applied by the Regulator is not inflated as this will result in the consumer paying more than is necessary.

The company will benefit when its actual cost of capital is lower than its allowed Regulatory Rate of Return. The higher the Regulatory Rate of Return the more it will benefit at the expense of the consumer.

In comparison to the NIE proposal and with other UK network companies, the Regulator's proposal appears to represent a fair balance of risk between NIE and the consumer.

However, we recognise that the WACC must be kept under review as other elements within the draft determination may yet turn out differently in the final determination. Therefore it may be necessary to reconsider the WACC again to ensure the balance of risk between consumer and company is equitable. These elements are notably the investigation into capitalisation, the final amount of Funds One and Two and the treatment of pensions.

## **A Reporter**

The Consumer Council supports the introduction of 'a Reporter'; an approach that has proved useful in the regulation of NI Water. This approach should address the issue of the lack of sufficient information needed within the regulation of NIE to improve the quality of information available to the Regulator. However, the use of a Reporter does not diminish our assertion that the company must develop a comprehensive and coherent Business Plan based on sound data and consumer engagement.

## **Powerteam**

The Consumer Council supports the Regulator's proposals for the NIE Powerteam. The Regulator statement '*that customers have been paying higher costs than necessary in relation to NIE Powerteam Ltd during RP4*' is another example of where the previous Price Control did not serve customers well.

## **Pensions**

The Consumer Council welcomes the efforts by the Regulator to develop a position on the NIE pension fund and to devise and apply pension principles.

The Consumer Council cannot accept the basic premise underlying the principles that NIE should be allowed to recover all of the costs and bear none of the risks associated with both ongoing pension costs and pension deficits as long as they are legally unavoidable. In our view this is an inequitable balance of risk between the company and the consumer.

Whilst we appreciate, and welcome, the Regulator's proposal to disallow the recovery of 'avoidable and inefficient actions' in previous Price Control periods, the consumer is still left exposed to deficit recovery costs that fall outside of these categories. Within the risk sharing principle of incentive based Price Controls, shareholders should also bear the burden of reducing the deficit. The problem for consumers is exacerbated by the fact that it is not clear if the deficit amount is crystallised or could increase in the future thereby adding further risk and liability for consumers to carry alone.

In 2009-10, Ofgem undertook a detailed and systematic review of the treatment of pensions in network companies. In July 2009, Ofgem stated in its comparison with other Regulators that '*all other economic regulators, including the Competition Commission have a policy framework that leaves shareholders of the regulated company with at least some, and in certain cases, all of the risk attached to deficit funding*<sup>6</sup>'

This principle of the sharing of risk applies equally to ongoing pension costs. The fact that the Regulator has identified '*avoidable and inefficient*' costs from previous Price Controls amounting to £33.4m (38 per cent of the total deficit) shows that the legal obligation placed upon trustees to manage the funds prudently does not guarantee efficient investment. We accept that even with prudent investment there is no guarantee of an efficient outcome. This risk should not be borne alone by consumers.

### **Connections**

The Consumer Council welcomes and supports the Regulator's proposals for new connections.

However with the removal of the 40 per cent subsidy for domestic connections, there must be a scheme that provides financial assistance for vulnerable customers who are unable to afford to pay the full cost of a connection

The Regulator's proposal to require NIE to provide a schedule of works is welcome if rather late. Furthermore, it does not address the root problem that there is little risk to NIE in wrongly estimating costs. Consumers not only want to be able to see the cost estimate in detail, they need assurance that it is the best possible estimate.

We support the development of competition in connections as this is the best way of assuring the best deal. We urge the Regulator to prepare options for competition for connections as soon as possible. In the meantime, the

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<sup>6</sup> Price Control Pension Principles Second consultation document, Ofgem. July 2009

Regulator needs to require NIE to produce an itemised menu of its scheduled costs, which is reviewed and agreed by the Regulator annually.

### ***Innovation***

As the Vulnerable Customer Programme has been successful in helping reduce fuel poverty we would like to see a cost benefit analysis undertaken before it is discarded. The reported £7m of unclaimed benefits the scheme has helped identify suggests that it may provide a cost effective use of money.

Understanding the cost benefit of the scheme would also allow stakeholders to consider if it could, and should be borne by the company rather than consumers.

We agree with the Regulator's conclusions on the cost of developing the use of advancing technology. It is the Consumer Council position that smart meters should be installed at no extra cost to consumers, as they will create significant recurring savings for the energy companies that far exceed the cost of installation and operation. Savings will come as a result of ending the need to dispatch meter readers and estimate bills, whilst reducing significantly the call centre requirements and providing better load management through smart grid applications.

### ***Environment and safety***

In line with developments in regulatory practice elsewhere which focus more on outputs we are disappointed that the RP5 draft determination does not provide any outputs on environmental and safety issues. As discussed earlier the Ofgem approach contained in its RII0 programme identifies both the Environment and Safety as output categories. The type of outputs envisaged by Ofgem relate particularly to carbon emissions and initiatives that are beyond those required by the Health and Safety Executive but are in the public interest.

We urge the Regulator to bring forward suggestions for monitoring outputs in environment and safety issues as soon as possible and ensure that they are subject to full public consultation.

### ***Financeability***

Whilst we support the Regulator's Price Control Determination where it delivers identifiable benefits to consumers, we also recognise that it is in the consumer's interests that NIE is financially robust and able to finance its current business and future development.

The Regulator has a vital role to provide certainty that an ongoing pressure on costs is maintained balanced against the long term sustainability of the network and its operator. In this respect we note the assurance provided by the Regulator that NIE is able to finance its business now and in the future and that the proposals contained in the draft determination do not undermine this.

## **Conclusion**

If you wish to discuss the attached in more detail, please do not hesitate to contact Marian Cree, Head of Energy on 028 9067 4804 or e-mail [mcree@consumercouncil.org.uk](mailto:mcree@consumercouncil.org.uk).





**The Consumer Council**

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

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