



***Consultation: Utility Regulator Draft Forward Work Programme 1 April 2012 – 31 March 2013***

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## **1. Introduction**

The Consumer Council welcomes the opportunity to respond to the Utility Regulator's (the Regulator) consultation on its draft Forward Work Programme 1 April 2012 – 31 March 2013 (FWP).

Set up by statute in 1985 as a Non-Departmental Public Body, the Consumer Council's role is to promote and safeguard the interests of all consumers in Northern Ireland.

For many of the projects outlined in the draft FWP we will engage specifically with the Regulator. We will provide explicit and detailed comment during our work with the Regulator on these projects. We have set out below some high level comment on the draft FWP.

It is vital that consumers' interests are at the heart of all the Regulator's work. The Regulator must demonstrate consideration and a balancing of these interests over the short, medium and long term.

## **2. Forward Work Programme project 2012 - 2013**

### **2.1 Monopoly Regulation**

The Consumer Council recognises the importance that regulation plays in protecting consumers. As a statutory consultee on regulated tariff reviews the Consumer Council looks forward in the coming year to working with the UR on tariff reviews and Price Controls.

The Consumer Council believes that for the Regulator to achieve its objectives in carrying out Price Controls it must inform and be informed by its stakeholders. The Regulator must consult with consumers, energy companies, NI Water other industry parties and provide transparency on its decision making process.

The majority of consumers are not familiar with the financial and technical detail that is a necessary part of the Price Control process, but they do know what they want from their energy and water supplier. To enable consumers to understand and influence price controls the Regulator could:

- Work with the Consumer Council to engage with consumers, seeking views and opinions on the options under consideration and undertake consumer research; and
- Include a concise, 'Consumer Impact Assessment', highlighting the main costs and benefits to consumers in all Price Control consultation documents.

## **Energy**

The Consumer Council has previously expressed concern with what we believe are the excessive profit margins of electricity generators in Northern Ireland. Given that electricity generation currently accounts for 60% of Power NI's final tariff<sup>1</sup>, we support fully the Regulator's plans to review the Generation Unit Agreement(s) and in particular the commitment to cancel PPB business where the existing or proposed new contracts do not benefit consumers.

One of the major contributors to the high levels of fuel poverty in Northern Ireland<sup>2</sup> is our reliance on home heating oil. The table below shows that the estimated cost differential between heating a home using heating oil and gas is around £1,129.30.

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<sup>1</sup> Consumer Council Analysis of the McIlldoon Report Orphans in the energy storm, page 13.

<sup>2</sup> 44%, Housing Conditions Survey 2009.

Table 1. Average cost of energy in Northern Ireland:

Heating source	Heating cost	Electricity (3,300kWh per annum)	Total Fuel Bill
Gas (Ave consumption 12,232kWh)	£595.37	£588.00	£1,183.37
Oil (Ave 500L x 5.50)	£1,724.67	£588.00	£2,312.67
<b>Difference</b>	<b>£1,129.30</b>	-	<b>£1,129.30</b>

*Source: NIEE, Phoenix Natural Gas, fimus energy, Sutherland tables and Consumer Council*

*Note: Gas heating cost based on a weighted average between suppliers in Greater Belfast and Larne*

The Consumer Council urges the Regulator, in conjunction with DETI, to examine and implement initiatives aimed at maximising the utilisation of the existing gas network as a way to reduce fuel poverty levels. These could include the Regulator's proposed plan to review connection policies aimed at removing barriers to connections such as unreasonable costs.

With regards to any decision to extend the natural gas network, we offer guarded support for such initiatives. However, we are concerned about the cost involved, and ask that any decision is preceded by a public consultation and comparative cost benefit analysis that considers viable alternatives such as maximising connections in the existing licence areas and investing in renewable energy. These might provide a more cost effective option in the short to medium term or in the case of renewable energy a more sustainable option in the long term.

## **Water and Sewerage**

The Consumer Council welcomes the Regulator's commitment to monopoly regulation, but also believes that it would be in the interest of consumers to monitor and evaluate NI Water's administration, supplementary and additional charges to ensure these are fair and reflective of the cost incurred.

We look forward to working with the Regulator in reviewing NI Water's performance against PC10 targets, and working together on PC13 and PC15.

The Regulator will assess the implications of the various reviews of water regulatory regimes elsewhere. Recent and ongoing reviews and benchmarking practices will be helpful in highlighting potential new approaches to the regulation of NI Water. However, it is important that any review of regulation takes account of the unique situation in Northern Ireland while attempting to be innovative in its approach.

## **4.2 Sustainability and Security of Supply**

The Consumer Council believes that it is important that any future strategy for service delivery in water and energy encompasses sustainability.

### **Energy**

We share the Regulator's concerns about the challenges Northern Ireland faces around sustainable energy generation and security of our energy supply. Both issues present potential high risks and costs for consumers in the short term and also for future generations. These include amongst others higher energy bills to pay for the estimated £1bn investment required to upgrade the electricity network over the next ten years or potentially higher energy costs, a failure to meet statutory targets and supply shortages if we fail to reduce our reliance on solid fuels.

Given the estimated levels of investment required and the various renewable technologies that coexist, we recommend careful and coordinated planning, through engagement with DETI and the Sustainable Energy Inter Departmental Working Group.

We support actions that will improve Northern Ireland's security of supply such as gas storage, so long as they are backed up with evidence to

demonstrate that they provide a net benefit to consumers. With regard to security of supply for electricity we would ask for clarification as to the specific projects that this refers to.

## **Water and Sewerage**

The Regulator has advised that it will require NI Water to develop a Strategic Direction Statement as part of its work on PC15 and will incentivise a sustainable and strategic approach to the provision of water services. It is important that future plans for service delivery include sustainability and efficiency to ensure value for money for consumers with the balancing of service provision that is future-proofed and balances the short term costs with the long term gains. It would be helpful to specify how the Regulator is planning additional incentives and what additional incentives might be considered.

We seek clarity on whether reviewing and developing an approach for assessing and determining capital asset maintenance will form part of the work on PC15. Work done on this will also be useful in informing any long term water strategy.

Furthermore, we would also seek clarity on whether the proposed review of the current approach for assessing the efficiency of Public Private Partnerships operating in NI Water will form part of any ongoing Price Controls or if this will be monitored independently. It is essential that the mechanisms are in place to ensure consumers receive excellent value for money and quality of service, therefore the Consumer Council would like to work closely with the Regulator in this area.

## **4.3 Protection**

The Consumer Council shares the Regulator's concerns about the issue of energy affordability, and the protection of vulnerable water and energy consumers.

We note the lack of any reference to the Critical Care Register. The Consumer Council carried out four consumer panels in 2011 seeking consumer views on IME3 and standards of service issues. The majority of the participants, many of them carers for relatives or friends, were not aware about such services. Therefore we would recommend the inclusion of a specific item in the document aimed at developing a formal strategy in conjunction with the energy distributors and suppliers and NI Water that aims to increase awareness and the uptake of these schemes.

## **Energy**

We acknowledge the Regulator's effort to increase consumer protection, in particular around marketing practices, minimum standards of service, managing debt and improving the information available to consumers. The Consumer Council supports these projects and will continue to work closely with the Regulator to ensure a timely implementation.

All energy suppliers in Northern Ireland are currently signed up to the Consumer Council 'Marketing Code of Practice' and we look forward to working with the Regulator in developing a new code under the auspice of IME3.

We are disappointed that the Regulator's Draft Forward Work Programme does not include any practical initiatives aimed at addressing energy affordability, in particular for those experiencing the most extreme levels of fuel poverty. We would urge the Regulator to consider the inclusion of projects aimed at tackling fuel poverty from the angle of energy prices, for example examining and developing social tariffs and energy brokering schemes in conjunction with energy suppliers, the NI Executive and other interested stakeholders.

We also note that despite referring to business in the opening paragraph of this section of the document, the Regulator has not included any specific practical action aimed at protecting or supporting their needs. We would

recommend the inclusion of a project aimed at examining how higher energy prices are affecting local businesses and the development of additional protection in areas such as security deposits and the use of keypad meters for low users.

## **Water**

We look forward to working with the Regulator as it considers the longer term actions to protect vulnerable customers within the Freeze/Thaw Recovery Action Plan. We would like further information as to which of the long term actions in the report are aimed at benefitting vulnerable consumers and an assessment of the implementation and effectiveness of these.

## **4.4 Competition**

The Consumer Council supports as a general principle initiatives aimed at increasing and improving competition. If implemented correctly these can deliver lower prices and better services for consumers.

The Consumer Council will continue to engage with the Regulator and energy companies regarding the opening of competition in the ten towns gas area. We look forward to contributing to a second review of the retail energy markets.

We support the Regulator in its intention of continuing to act to identify and remove barriers to competition. We wish to see energy suppliers be able to offer dual electricity and gas tariffs.

The Consumer Council welcomes initiatives that increase further competition in the wholesale energy markets. We recognise the potential benefits of cooperation and harmonisation of the All-Island energy market. We will continue to work closely with the Regulator and energy companies



to ensure consumers benefit from any economies of scale, additional investment or reduced operational cost achieved.

The Consumer Council remains unconvinced that the Common Arrangements for Gas project will provide real benefits to the Northern Ireland consumer. We believe that a review of the project is urgently required to provide the assurance to stakeholders that it will provide real and tangible benefits to consumers in Northern Ireland.

## **Regulatory Framework**

The Consumer Council recognises the growing influence and impact on the Northern Ireland energy market of EU legislation as well as the integration of regional markets. We acknowledge the Regulator's plan to improve its communications with other energy regulatory bodies in the EU through the Agency for the Cooperation of Energy Regulators. We would like to remind the Regulator that the interest of consumers must be placed at the heart of any views expressed at European level or when discussing regional integration.

We acknowledge the benefits of learning from best practice from other regulatory bodies in the EU. Recent and ongoing reviews and benchmarking practices in other jurisdictions may be helpful in highlighting new approaches to the regulation of NI Water and energy companies. We would encourage the Regulator to use this expertise to deliver further benefits to consumers in areas such as standards of service, consumer protection and energy affordability. However, it is also important that any review takes account of the unique situation in Northern Ireland and attempts to be innovative in its approach and aims.

## **Conclusion**

The Consumer Council welcomes the Regulator's draft FWP, which has the potential to deliver significant improvements in cost, service and customer protection for Northern Ireland's energy and water consumers.

In regard to its plans for the water sector, the Consumer Council looks forward to working with the Regulator on the final year of PC10, agreeing PC13 and developing PC15, alongside the wider review of regulatory practice and the incentivisation of sustainability within NI Water and its business practices. It is extremely important that both the Consumer Council and the Regulator do their utmost to ensure that water services are delivered efficiently and effectively, and that measures are put in place to ensure that the best possible value and service levels are delivered for consumers in Northern Ireland now in and the years to come.

In energy, we welcome the projects aimed at further promoting and removing barriers to competition and progressive harmonisation and integration of the All-Island and UK energy markets and policies.

We welcome plans aimed at facilitating renewable generation and developing practical approaches to ensure our energy markets are in line to meet the targets set within DETI's Strategic Energy Framework. We are concerned about the proposed level of investment required and would ask that any decision balances the need to secure our energy supply and reduce carbon emissions with the potential cost to consumers through higher bills in the short term.

We believe that the proposed FWP fails to adequately address the fundamental and growing problem of energy affordability. Despite Northern Ireland having higher levels of fuel poverty than any other region in the UK or ROI, this draft document does not make a single reference to fuel poor households. We would urge the Regulator to go beyond the

proposed code of practice to “prevent/manage debt”, examining options such as social tariffs/energy rebates and energy brokering schemes.

The Consumer Council remains committed to working closely with the Regulator and other stakeholders to ensure that the projects included in the final FWP are implemented effectively delivering significant benefits for all consumers.



The Consumer Council

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