

# Review of DUoS Domestic Tariff Methodology

Decision Paper  
February 2018



# About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Compliance and Network Operations, Finance and Network Assets, Wholesale, Retail and Consumer Protection and Corporate Affairs. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

## Our Mission

Value and sustainability in energy and water.

## Our Vision

We will make a difference for consumers by listening, innovating and leading.

## Our Values

Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted.

Be a united team.

Be collaborative and co-operative.

Be professional.

Listen and explain.

Make a difference.

Act with integrity.

## Abstract

This paper sets out the Utility Regulator's (UR) final decisions following the Utility Regulator's (UR) consultation proposals to review the Domestic DUoS Tariff Charging Methodology.

The options for consultation were:

**Option 1** – Do nothing to current DUoS standing charge structure for domestics

**Option 2** – Introduce “Per Unit” domestic DUoS charges and remove the current standing charges element, and hence help to retain a Unit Based Retail Tariff Structure

This decision paper outlines the rationale for the UR's decision in relation to the final option chosen.

## Audience

Consumers and consumer groups; industry; and statutory bodies.

## Consumer impact

This paper sets out the UR's decisions following review of Domestic DUoS Tariff Charging Methodology. It has been decided that no changes will be made and the status quo will be maintained. The consultation highlighted that there would be some potential for suppliers to reintroduce a standing charge in the future. However, the structure of retail tariffs is a matter for suppliers. Currently suppliers offer unit based retail tariffs with no standing charge element. This is under the existing DUoS charging regime. Therefore there is likely to be no customer impact in the short to medium term.

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I	CCNI	CCNI Response to UR Review of DUoS Domestic Charging Methodology
II	NIEN	Response to UR Review of DUoS Domestic Charging Methodology
III	NIHE	Consultation paper on the review of DUoS domestic tariff charging methodology
IV	Power NI	Review of DUoS Domestic Charging Methodology – Power NI Response

# 1. INTRODUCTION & BACKGROUND

- 1.1 This paper sets out the UR's decision on the Review of DUoS Domestic Tariff Methodology.
- 1.2 The UR issued a consultation<sup>1</sup> in September 2017 on the potential options in relation to this review.
- 1.3 This final paper represents the conclusion to the review.

## Background

- 1.4 In Electricity, the primary statutory duty of the Utility Regulator (UR) is “*to protect the interests of consumers of electricity supplied by authorised suppliers, wherever appropriate by promoting effective competition*”<sup>2</sup>.
- 1.5 To help protect the interests of consumers, the UR consulted on facilitating the introduction of a unit based (i.e. per kWh supplied) Distribution Use of System (DUoS) charge for domestic customers, as opposed to the current DUoS charging structure system for domestics which entails both a volume-related charge and also a “standing charge” element.
- 1.6 This change in the structure of the domestic DUoS charges, (which are charged by NIE Networks to domestic electricity suppliers), would be introduced in order to support the continuation of the status quo in the domestic retail market where there are currently single ‘per kWh’ unit based retail tariffs for domestic customers, with no standing charges. This is the case with all suppliers in the NI retail market<sup>3</sup> and was the case from 1999 when the then monopoly supplier Power NI introduced a Home Energy tariff with no standing charge in April of that year. This was the first

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<sup>1</sup> <https://www.uregni.gov.uk/news-centre/consultation-paper-review-duos-domestic-tariff-charging-methodology>

<sup>2</sup> Article 12 of the *Energy (Northern Ireland) Order 2003*.

<sup>3</sup> except for Economy 7 customers who do pay a standing charge

standard domestic tariff in the UK and Ireland that was unit based only. This is still the case today with the regulated Power NI tariff. Other suppliers who have entered the NI domestic supply market currently mimic this charging regime and as such there are currently no standing charges in any of the NI retail domestic tariffs<sup>4</sup>.

1.7 The consultation paper stated that, in the UR view, there are several significant advantages to the simple ‘per unit’ domestic charging regime by suppliers. These include:

- transparency of tariffs for domestic customers;
- simplicity of tariff understanding and comparison;
- they are supported by consumer groups; and
- they meet EU directive requirements of ‘ease of comparison’ between tariffs.

1.8 As highlighted previously, DUoS charges for domestic properties, which are levied on suppliers by NIE Networks, are currently made up of two elements: the standing charge and the unit rate. The standing charge for domestic premises (standard rate) from October 2017 is set at £6.96 per quarter (£27.84 per annum) and a unit rate of 2.678 pence per KWh. As a result, for an average consuming domestic customer (based on 3,200 KWh), over 20% of the network charges a supplier will incur for that customer are currently collected via the standing charge element.

1.9 The network company charges each supplier for both the fixed and “per unit” elements. Whilst the standing charge element is fixed and charged on a quarterly basis, the unit rate charge is variable and dependent on the usage at the premises.

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<sup>4</sup> except for Economy 7 customers who do pay a standing charge

- 1.10 To date, in terms of final end tariffs for customers, suppliers in NI have charged domestic customers a unit based retail tariff, with no standing charge element (except for Economy 7). This is despite the structure of the domestic DUoS charges they incur from NIE Networks. The DUoS standing charges incurred by suppliers for their domestic customers are 'smeared' by the supplier across all the domestic units the supplier forecasts it will sell and included in the single unit charge set.

### **GB and ROI & wider context of distribution charging**

- 1.11 It is also important to note the wider context in which this project sits. In both the ROI and GB (Significant Code Review) the network charging structures are under review. Developments such as the increasing amount of self-generation on the distribution network system as well as the potential for future electricity storage solutions will have a significant impact on the way in which network charges could/should be structured and developed. An example of this may be where a customer has effectively gone 'off grid' or partially off grid and generates all or some of their own electricity but still retains the ability to call on electricity from the grid if required. A customer like this may need to be levied with a standing charge for their connection to reflect that the network must be built to provide their connection even though they might not use it for long periods of time. It is important to bear these developments and context in mind whilst developing this review of the DUoS methodology specifically in relation to domestic customers. As the market and technologies develop, there may be a future requirement in NI for a more fundamental review of all transmission and distribution network charging in NI which will take into account those developments currently being considered in the ROI and GB.
- 1.12 The consultation paper stated that even in this wider context and with the potential for a more fundamental review, the UR viewed it necessary, as an



interim measure, to carefully consider and consult upon the proposed changes to the current domestic DUoS charging structures. The consultation however was open to all views and the UR did not have a “minded to” position on this issue.

### **About this document**

- 1.13 The purpose of this document is to set out the UR's decisions in relation to the review of the DUoS Domestic Tariff Methodology.
- 1.14 We have received a number of submissions in response to the June consultation proposals and these have been taken into account when making our final decisions.
- 1.15 The following is a brief summary of the issue dealt with within each section of this decision paper:
- Section 2 details the UR proposals and the responses to the consultation questions and the UR response to these.
  - Section 3 sets out the UR's decision.
- 1.16 The UR received 4 written responses to the September Consultation paper. Non-confidential submissions were received from the following organisations:
- Consumer Council Northern Ireland (CCNI);
  - Northern Ireland Electricity Networks (NIEN);
  - Northern Ireland Housing Executive (NIHE); and
  - Power NI.

A copy of each respondent's full submission have been published as annexes to this paper and can be found on our website – [www.uregni.gov.uk](http://www.uregni.gov.uk).

### Equality considerations

1.17 As a public authority, the UR has a number of obligations arising from Section 75 of the Northern Ireland Act 1998. These obligations concern the promotion of equality of opportunity between:

- i. persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
- ii. men and women generally;
- iii. persons with disability and persons without; and
- iv. persons with dependants and persons without.

The UR must also have regard to the promotion of good relations between persons of different religious belief, political opinion or racial groups.

1.18 In the development of its policies the UR also has a statutory duty to have due regard to the needs of vulnerable customers i.e. individuals who are disabled or chronically sick, individuals of pensionable age, individuals with low incomes and individuals residing in rural areas. Some of the above equality categories will therefore overlap with these vulnerable groupings.

1.19 In order to assist with equality screening of the proposals contained within this review, the UR requested that respondents provide any information or evidence in relation to the needs, experiences, issues and priorities for different groups which they feel is relevant to the implementation of any of the proposals outlined in our September 2017 consultation.

1.20 In our consultation, the UR asked the following questions regarding our equality considerations:

***Q1. Do respondents agree that where this consultation has an impact on the groups listed, those impacts are likely to be positive in relation to equality of opportunity for energy consumers?***

## Feedback and UR comments

1.21 In relation to question 1, a number of respondents addressed this question specifically.

1.22 CCNI stated in their response:

*“The Consumer Council agrees that adopting Option 2, a per unit domestic DUoS charge, should maintain a positive impact on consumers from an equality perspective.”*

1.23 The NIHE also deemed that if domestic DUoS charges were to be charged on a per unit basis then they would:

*“consider the impact of your change to be positive for vulnerable consumers at present”*

1.24 NIHE did highlight, that in their view, this could potentially change with the introduction of new technologies and therefore tariff structures should remain under review.

*“so it seems appropriate to keep the structures of tariffs under review so that they provide appropriate investment incentives, as well as being a mechanism for cost recovery. E.g. Incentives available when the system operator can connect or limit certain electric heating or battery charging loads.”*

1.25 NIEN stated that they were of the view that it could have both positive and negative impact on equal opportunity of customers.

*“Applying flat unit price tariffs means any revenue previously received through standing charges will be recovered through higher unit charges and weighted towards customers with higher than average consumption. As a consequence some vulnerable customers will be impacted in a negative way by higher bills. For example, this could be the case for*

*customers who are at home 24 hours a day, or households with dependents as they are likely to use more electricity and therefore will be impacted more by the higher unit price.”*

1.26 However, they did also note that:

*“The customers that would be positively impacted by the UR’s proposals are those customers with low or no consumption.”*

## **UR Comment**

1.27 The feedback has been conflicting with one respondent of the view that the impact was a positive, whilst the other stated that the impacts are likely to be negative on potentially the most vulnerable customers. If the UR were to go ahead with the removal of the standing charge from the DUoS tariff the impacts would need to be carefully considered.

**Q2. Do respondents consider that the proposals for the review of the Domestic DUoS methodology need to be refined in any way to meet the equality provisions? If so, why and how? Please provide supporting information and evidence.**

## **Feedback and UR comments**

1.28 CCNI did not think that the proposals for the review needed to be refined in any way. They stated:

*“The Consumer Council deems the proposals to be satisfactory, unless additional evidence is presented to the contrary.”*

- 1.29 NIEN highlighted that they currently produce their tariffs on a cost reflective basis and therefore meet equal opportunity provisions. They are of the view that the UR's proposals go against this:

*"We believe that the UR's proposal goes against the equality provisions because the proposal will result in cross subsidy of the network charges between suppliers and ultimately domestic customers, including the groups considered in the equality provisions."*

### **UR Comment**

- 1.30 On reviewing the responses we have to take into account stakeholders views on the impacts on equality provisions. Similarly to question 1, the feedback has been conflicting with one respondent of the view that the impact was a positive, whilst the other stated that it fundamentally went against equality provisions. If the UR were to go ahead with the removal of the standing charge from the DUoS tariff the impacts would need to be carefully considered.

## 2. CONSULTATION QUESTIONS AND FEEDBACK

- 2.1 This section of the paper examines the remainder of the consultation questions which were raised in the September paper and the respondent's views on these. It also provides the URs response to these views.

### Level Playing Field

- 2.2 The consultation paper highlighted that the UR recognises that the practice of 'smearing' the DUoS standing charge element of network costs over all units has some distortive effects on the end user retail price. Larger domestic users are making a bigger contribution to cover the fixed standing charges cost faced by suppliers whilst smaller domestic users may not be contributing enough to cover it. In this context, in a market with unit based retail tariffs across the board (as NI is currently in the domestic market, except for Economy 7), those suppliers with larger consuming customers have an advantage over those with smaller consuming customers as both suppliers have to pay NIE Networks the same standing DUoS cost for each domestic premises regardless of its consumption. In the current scenario in NI with DUoS standing charges levied by NIE Networks for each premises being 'smeared' over all units, a supplier with smaller consuming customers will see a larger impact on its tariff rates than compared to a supplier with larger customers. This may distort the market and could have an impact on competition.
- 2.3 Respondents were asked to give their view on this.

**Q3. Do respondents agree that having a standing charge element in domestic DUoS charges and unit based retail tariffs means there isn't a level playing field for suppliers in the context of the current arrangements where all suppliers charge a unit based retail tariff?**

## Feedback and UR comments

- 2.4 NIEN were of the view that the UR's proposals do not help create a 'level playing field'. They reiterate the point that the UR's proposals are a move away from the principle of cost reflectivity for the network business charges. They stated in their response:

*“network charges will no longer be cost reflective, this will lead to cross subsidy of network charges between electricity suppliers. Those suppliers with larger consuming customers will pay more distribution network charges to subsidise suppliers with lower consuming customers.”*

- 2.5 They went on to dispute that 'all things being equal' customers should not end up paying any more than they currently do under the new proposals. NIEN stated that they believed that if suppliers with large users saw an increase in their DUoS bill then this would most likely be passed on to their customers. If this did happen then it is a possibility that some customers may see an increase in their bills. In this context they believe it could have the potential to impact vulnerable customers.

- 2.6 Power NI were of the view that the current DUoS standing charge did have a distortive impact:

*“As the basis of DUoS charging is ‘standing charge plus’ there is a clear disconnect between end customer tariffs and underlying cost components. This means that end domestic tariffs are not strictly cost reflective and there is a cross subsidy from customers consuming larger amounts of electricity to those consuming less”*

- 2.7 They went on to state that, in their view, it did distort competition:

*“From suppliers perspective only a balanced portfolio of high and low consuming customers will negate the impact of the cross subsidy. A disproportionately weighted portfolio can create a potential under recovery for a supplier which in turn would result in tariffs being increased. This compounding negative effect negates the socially progressive original design goal.”*

- 2.8 CCNI stated that there was not a consistent correlation between the number of customers a supplier had and the consumption associated with them. They included data from the UR's QTRs to support this observation.
- 2.9 CCNI pointed out that whilst they did not know the extent of the distortive impact it could mean that in the long term suppliers may introduce standing charges or potentially target larger users.

## **UR Comment**

- 2.10 We have taken into account the views expressed by respondents. As highlighted in our September consultation, we understand that larger users would potentially cross subsidise lower users if DUoS tariffs no longer contained a standing charge.
- 2.11 Power NI's points are noted but they do not address the issue of the cross subsidisation which will happen if Option 2 were to be implemented. Power NI's argument is based more on acknowledging and allowing a cross subsidisation (and enshrining it in DUoS charges) for socially progressive reasons.
- 2.12 CCNI's view supports the view presented by the UR in the consultation that if Option 2 were not implemented that it may lead to the reintroduction of standing charges. However, this is not a certainty. The status quo may endure and suppliers (as they have up to this point) may continue to choose to offer flat retail tariffs with no standing charge. This may occur as



suppliers may feel flat tariffs are a preferable way in which to market to customers as they are clear and transparent.

## Options

- 2.13 The UR set out two options for consultation and asked for respondents views on these.

### **Option 1 – Do nothing to current DUoS standing charge structure for domestics**

- 2.14 This option would entail retaining the status quo i.e. the standing charge would remain a separate element of the domestic DUoS network charges paid by suppliers. However, this would not preclude suppliers reintroducing standing charges in their own retail tariffs if they wished to do so. If standing charges were to be reintroduced it would make comparability of suppliers' domestic tariffs more difficult for customers, and work against the vulnerability and energy efficiency goals underlying the original Ofreg decision. It would also be a significant move away from the status quo in the retail market and may be confusing for customers. Customers groups have said they feel it would be a “regressive” step.

### **Option 2 – Introduce “Per Unit” domestic DUoS charges and remove the current standing charges element, and hence help to retain a Unit Based Retail Tariff Structure**

- 2.15 This option would entail the alignment of the DUoS tariff structure with the current unit based retail tariff structure in NI. The current standing charge element of domestic DUoS charges would be smeared equally across all forecast domestic units. As a result, all suppliers would then be charged a per unit rate for domestic DUoS network costs. This in turn would facilitate the continuation of simple unit based retail tariffs for domestic customers.

**Q4. Do respondents agree that there are only two options? If you identify any alternative option please provide a full explanation.**

## **Feedback and UR comments**

- 2.16 As highlighted above, the UR stated that DUoS charges which were unit based and had no standing charge could aid retail tariff transparency. This could be achieved if suppliers continued to offer a unit based retail tariff. NIEN disagreed with this:

*“The consultation proposals will not guarantee these objectives as electricity suppliers are not restricted by network tariff structures.”*

- 2.17 NIEN were also of the view that there were more options open to the UR rather than taking the step to remove standing charges from DUoS tariffs. They refer to examples which have been adopted in GB such as standard formats by which tariffs should be displayed by suppliers.

*“In GB suppliers must display tariffs using the standard formats set by the Tariff Information Label (TIL) and Tariff Comparison Rate (TCR).”*

- 2.18 NIEN are of the view that this could offer a solution which would mean that the DUoS charges could continue to be calculated on a cost reflective basis.

- 2.19 Power NI stated in their response that they agreed with the UR that there were only two options and did not identify any alternative options.

- 2.20 CCNI and NIHE did not propose any alternative options to those presented by the UR in their consultation paper.

- 2.21 NIHE stated:

*“We welcome the retention of a charging regime where very low users pay less towards the costs of the electricity system.”*

## UR Comment

- 2.22 We agree with the point made by NIEN, that to remove standing charges from the DUoS tariff won't guarantee that suppliers will continue to offer a unit based retail tariff. The only route to guarantee this would be to introduce a licence condition into suppliers' licences. This was proposed in the consultation and is discussed later in this section.
- 2.23 The suggestion in relation to the GB formats for displaying tariffs is also something that can potentially be explored as an option for NI. The URs' Marketing Code of Practice<sup>5</sup> already contains a stipulated format by which suppliers must display their tariffs. However, this currently doesn't allow for a blended rate (standing charge and unit rate) such as that which is used in the GB market.

## Advantages and Disadvantages of the Proposed Options

- 2.24 The UR set out what, in its view, were the advantages and disadvantages of the proposed options.
- 2.25 In relation to Option 1, “Do nothing to the current DUoS standing charge structure for domestics”, the advantages and disadvantages as per the consultation paper are set out below.

### Advantages

- 1) the ability for the supplier to recover the cost of the DUoS standing charge from the customer it is derived from; and

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<sup>5</sup> <https://www.uregni.gov.uk/news-centre/information-paper-energy-supplier-marketing-code-practice>

- 2) the tariff which is being charged is more fully “cost reflective” under the current DUoS charging structure.

### **Disadvantages**

- 1) low volume users being required to pay a standing charge regardless of their usage (whilst strictly cost reflective this is not the case today in a domestic retail market that has only unit based retail tariffs);
- 2) less protection of vulnerable customers;
- 3) less transparency in tariffs with tariffs being more complex due to the standing charge element
- 4) more difficult to compare tariffs which may hinder customers’ willingness to switch
- 5) may be seen as a regressive step; and
- 6) may create confusion for less informed customers.

2.26 The advantages and disadvantages per the consultation paper for Option 2 “Introduce “Per Unit” domestic DUoS charges and remove the current standing charge element, and hence help to retain a Unit Based Retail Tariff Structure” are also set out below:

### **Advantages**

- 1) protection of low volume users and those who are potentially fuel poor, they don’t have a fixed standing charge regardless of usage;
- 2) protection of vulnerable customers for the same reason as above;
- 3) improves energy efficiency incentives for larger users
- 4) tariff transparency as it makes tariffs simple and therefore easy to understand. This helps with meeting our statutory duties on “ease of comparison”; as well as media messaging and explanation of percentage increases/decreases; and
- 5) comparability of tariffs made easier for customers wanting to compare supplier offers.

### **Disadvantages**

- 1) the tariff being charged is not fully cost reflective; and
- 2) there is a risk of increased volatility for NIE Networks revenues as by changing to a unit rate to collect both the fixed and variable element of

their costs they are exposed to slightly more volume risk i.e if the units consumed aren't as high as expected they will not recover all the required revenue in that year (this will be built into their tariff the following year). However, we do not envisage that this issue will be material as the NIE Networks demand forecast for domestic customers is usually reasonably close to the actual outturn consumption.

- 2.27 Respondents were asked to give their views on the advantages and disadvantages of each of the options.

**Q5. Do respondents have any views on the advantages & disadvantages of each option? If so, please give a full explanation.**

## Feedback and UR comments

- 2.28 NIEN express the view that there isn't any guarantee that suppliers will introduce retail standing charges or on the contrary not introduce them, if the standing charge is removed from the DUoS tariff.

*“Under option 1 and 2, suppliers will have the same ability to retain or change their tariff structures going forward. Therefore it is not appropriate to make these assumptions without any explanation as they may cause confusion in the assessment of the proposed options and could be misleading.”*

- 2.29 They also stated that there are a number of additional advantages (from their perspective) to Option 1 which were not identified in the consultation paper.

*“We also consider that option 1 provides additional benefits:*

- No system/process changes are required to retain the status quo;*
- and*

- *It will be easier to move from the status quo to future changes resulting from a more fundamental review which are likely to include more fixed charges, rather than taking a step backwards.”*

2.30 With regard to the advantages listed by the UR, NIEN are of the view that they only remain relevant *if* suppliers continue to offer a unit based retail tariff and don't introduce standing charges. They also reiterated their belief that some customers could potentially pay more for their electricity if their suppliers DUoS bill increased and they passed this on to their customers.

2.31 In terms of Option 1, NIEN state that they accept that a flat retail tariff (i.e. unit charge only with no standing charge) are simpler and easier to compare.

2.32 NIEN also believe there are a number of additional disadvantages in their view. They identified the following:

- *“Option 2 is a regressive step moving away from cost reflective DUoS charges and could create obstacles for the future review of DUoS charges that will take account of the GB market where they are investigating the introduction of more fixed charges.*
- *Suppliers with a customer base of higher consuming customers will be subsidising the DUoS costs for suppliers with a customer base of low consumption customers;*
- *Domestic electricity prices may become more volatile on a year to year basis.”*

2.33 Power NI stated that Option 1 would inevitably lead to the reintroduction of the standing charges into retail tariffs. They also agreed with the advantages of Option 2, which were laid out by the UR in the consultation:

*“As the UR has identified the reintroduction of domestic standing charge would have an adverse impact on low volume customers, vulnerable*

*customers, transparency, easy of tariff comparison and create confusion. It is Power NI's view that these disadvantages should be avoided....."*

- 2.34 Power NI were of the view that the removal of standing charges from the DUoS charging methodology was a comprehensive solution to this.
- 2.35 Power NI also stated that they were of the view that despite the proposal to remove standing charges from DUoS tariffs being contrary to the 'direction of travel' in other jurisdictions they did not believe this to be a significant issue. They also expressed the same view in relation to the forecasting risk.

*"While acknowledging that both of these are issues, Power NI does not consider them to be significant enough to merit not changing to DUoS unit based billing."*

- 2.36 CCNI stated that they broadly agreed with the advantages and disadvantages outlined in the UR consultation paper. They also stated that the reintroduction of standing charges into the retail tariff would be a regressive step for customers. They also highlight that a standing charge could be financially detrimental to low users and have suggested that there is anecdotal evidence to suggest that application of minimum charge leads to customer dissatisfaction. CCNI also agreed with the UR that no standing charges on retail tariffs makes them more transparent and easily comparable.

## **UR Comment**

- 2.37 We are of the view that NIEN have raised some valid points in relation to question 5. The additional advantages they have identified in relation to Option 1 are noted. In particular, if there is a future more fundamental review of network charging (which is highly likely) it may well be the case that there will be more focus on fixed charges and therefore an increase to

standing charges. It is unlikely that such a review would lower the standing charge proportion of domestic DUoS tariffs. In this context it would seem prudent to stay with the status quo.

- 2.38 As previously discussed, the only way to guarantee that suppliers continue to offer a single unit rate retail tariff is to introduce a licence condition. The additional disadvantages they have identified with Option 2 have already been discussed previously with the exception of price volatility which we had identified as a potential issue in the consultation paper. We stated:

*“If standing charges were included in a new single p/kWh rate and the full 100% of revenue is exposed to these forecasting errors, over and under recoveries for NIE Networks could become slightly larger..... This increased volatility will also increase DUoS annual tariffs movements (increases and decreases) slightly.”*

- 2.39 The UR went on to express the view that we did not believe this to be a significant issue:

*“However, we do not envisage that either of these two issues will be material as the NIE Networks demand forecast for domestic customers is usually reasonably close to the actual outturn consumption.”*

- 2.40 Power NI's view that it would help retain tariff transparency aligns with the views expressed in the UR's consultation paper.

- 2.41 However, it may be the case that the issues which NIEN have highlighted leave no option but to retain the status quo. This is particularly in the context of this being an interim measure and is likely to need to be reversed if there were to be a more fundamental review of network charging structures. The UR needs to take a medium to long term view on these type of issues, and to move further away now from what may well be the end result, following a network charging review, would increase the



quantum of change that the retail market would experience if standing charges were re-introduced, and they made up an even larger proportion of the domestic DUoS charge than they do today.

## Specific Licence Condition

- 2.42 The UR consultation paper highlighted that the current arrangements, with no retail standing charges for domestic customers, are not a requirement of supply licences. They have been achieved only through historical agreement with Power NI when it was the monopoly domestic supplier, and other new entrant domestic suppliers have followed suit and all offer a unit based retail tariff rate dependent on payment type. The UR is supportive of this approach to setting domestic retail tariffs for various reasons already discussed. The UR has not mandated volume-related only domestic retail tariffs to date. If the UR were to proceed with the policy to introduce unit based DUoS tariffs for domestic customers, then we would also have to consider if there is a requirement for a retail licence obligation i.e. to introduce a licence condition to prohibit standing charges in retail domestic tariffs.
- 2.43 In the consultation paper we asked for views as to whether respondents thought that there should be a specific licence obligation introduced if Option 2 were to be implemented.

**Q6. If option 2 was chosen and implemented do respondents think that there should be a supplier licence obligation to charge unit based domestic retail tariffs i.e. no standing charges?**

## Feedback and UR comments

- 2.44 NIEN expressed concern that if a licence obligation were to be introduced then it should not create a future barrier to changes to NIEN DUoS tariff structures.
- 2.45 Power NI stated again that that they believed that the UR should implement Option 2. They were of the view that it would be difficult for a supplier to justify creating a separate standing charge in a retail tariff if Option 2 were to be implemented. Power NI stated that they were not in a position to say whether a generic licence condition on all suppliers would achieve the desired outcome.
- 2.46 CCNI were of the view that if Option 2 were to be implemented then a licence obligation should be introduced.

## UR Comment

- 2.47 We take on board NIEN's concern in relation to the introduction of a licence obligation. Particularly in the context of Option 2 (if introduced) being potentially only an interim measure that would have to be revisited after any review of network charges. When that more fundamental review of network charging structures takes place it will in all likelihood result in any licence obligation on suppliers needing to be removed.

## EU Directive

- 2.48 Another point made in the responses which needs to be highlighted, but was not a response to the specific consultation questions, relates to EU Directive 2009/72/EC1 which states "*national regulatory authorities should ensure that transmission and distribution tariffs are non-discriminatory and cost reflective*".
- 2.49 It would seem that to remove standing charges and thus charge premises that have no consumption at all or very low consumption less than the

standing charge whilst charging those higher users more than the standing charge element could be deemed discriminatory.

- 2.50 The directive also states that the tariffs should be non-discriminatory so *far as it is practicable, efficient and reasonable to do so* i.e. ensuring no undue discrimination among network users.
- 2.51 The UR view is that it cannot be objectively justified that implementing option 2 would not be un-due discrimination and would therefore be non-compliant with the directive.
- 2.52 Whilst there is also a directive requirement for ease of comparability of tariffs it could be argued that this can be achieved by various means without breaching another separate requirement of the directive.
- 2.53 As stated earlier the current arrangement that was put in place by agreement with the then monopoly domestic supplier was before Directive 2009/72/EC1 was in place. In the competitive domestic market, which opened in 2007, all suppliers are free to have price structures that they wish, albeit Power NI as the price regulated supplier has some non-discrimination obligations. The continuation of flat retail tariffs has therefore been a consequence of supplier's preferences. Whilst the UR agrees many of the merits of the flat retail tariff structure that NI suppliers employ, and supports its continuation in NI, it would be contrary to the Directive for the regulator to explicitly introduce a discriminatory non cost reflective use of system tariff to support it.

### 3. UR FINAL DECISION

- 3.1 This section of the paper sets out the UR's final decision, which takes into account the stakeholder feedback received.
- 3.2 As previously discussed in Section 2, our September consultation paper set out two options for consultation:
- **Option 1** – Do nothing to current DUoS standing charge structure for domestics
  - **Option 2** – Introduce “Per Unit” domestic DUoS charges and remove the current standing charges element, and hence help to retain a Unit Based Retail Tariff Structure
- 3.3 We have carefully considered all the feedback which has been received from stakeholders in relation to this consultation.
- 3.4 The feedback has been mixed in terms of supporting the implementation of Option 2, which would see the removal of the standing charge element from the DUoS tariff structure.
- 3.5 As highlighted previously in Section 2, CCNI and Power NI would both support the implementation of Option 2. If this option were to be implemented it would potentially mean the continuation of suppliers offering a flat retail tariff without a standing charge. However, as pointed out by NIEN this would only be guaranteed if there was the introduction of a licence obligation. This obligation would prevent suppliers from introducing standing charges into their retail tariffs. This obligation in itself could bring about unintended consequences and seems at odds with a competitive market where suppliers can differentiate themselves. In addition to this, NIEN have argued that in the context of the UR consultation pointing to this

as an interim measure, a fundamental change to the domestic DUoS tariff structure may not be the best approach.

- 3.6 There has been support from some stakeholders for the transparency and comparability that a unit based retail tariff brings. Both Power NI and CCNI have indicated that this is an argument for implementing a solution which would allow this to continue. However, NIEN have made a strong argument that there could be potential financial consequences to some customers. The UR consultation made the point that ‘all things being equal’ customers would not see an increase in their bills should Option 2 be implemented. However, NIEN have made the valid point that under the new arrangements some suppliers may see an increase in their overall DUoS bill and that this could potentially be passed on to their customers.
- 3.7 Furthermore, the point highlighted by NIEN regarding the directive is highly important. The UR is not in a position to make a decision that whilst facilitating the continuation of a regime in the retail market that it supports, clearly contravenes EU law.
- 3.8 The UR consultation highlighted that any option implemented would most likely be on an interim basis given a future more fundamental review of network charging structures. This review may very well see a move towards a higher proportion of network charges being fixed and therefore a potential increase in domestic standing charges from where they are today, albeit nothing has been agreed. If however that did turn out to be the case, it would be much less disruptive to the retail market to move to that new position if the current standing charge element is left as it is today. It therefore seems prudent not to move in the opposite direction from where the review might take us. This coupled with the legal requirement outlined above makes the argument for option 1 even more compelling.
- 3.9 Therefore our decision is to stay with the status quo Option 1. Given this decision there is no requirement for any changes to supplier licences or the current calculations of domestic DUoS tariffs.

## Annex I

### CCNI

#### CCNI Response to UR Review of DUoS Domestic Charging Methodology



**Response to the Utility Regulator  
Review of DUoS Domestic Tariff  
Charging Methodology**

**November 2017**

## **1 Introduction**

- 1.1 The Consumer Council is a non-departmental public body (NDPB) established through the General Consumer Council (NI) Order 1984. Our principal statutory duty is to promote and safeguard the interests of consumers in Northern Ireland (NI).
- 1.2 The Consumer Council welcomes the opportunity to respond to the Utility Regulator (UR) Review of DUoS Domestic Tariff Charging Methodology. We recognise UR's efforts to ensure suppliers cannot change the current domestic tariff structure.

## **2 Consultation questions**

**Q1. Do respondents agree that where this consultation has an impact on the groups listed, those impacts are likely to be positive in relation to equality of opportunity for energy consumers?**

- 2.1 Standing charges were effectively removed from NI domestic electricity tariffs<sup>1</sup> in 1999 with the key aims of protecting vulnerable consumers and encouraging efficient use of electric by large domestic users. With the rise in fuel poverty levels since that time, 42% according to the latest official statistics<sup>2</sup>, those aims are even more important now than in 1999.
- 2.2 Therefore The Consumer Council agrees that adopting Option 2, a per unit domestic DUoS charge, should maintain a positive impact on consumers from an equality perspective.

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<sup>1</sup> With the exception of E7 tariffs.

<sup>2</sup> NIHE House Condition Survey 2011.



**Q2.Do respondents consider that the proposals for the review of the Domestic Duos methodology need to be refined in any way to meet the equality provisions? If so, why and how? Please provide supporting information and evidence.**

2.3 The Consumer Council deems the proposals to be satisfactory, unless additional evidence is presented to the contrary.

**Q3.Do respondents agree that having a standing charge element in domestic DUoS charges and unit based retail tariffs means there isn't a level playing field for suppliers in the context of the current arrangements where all suppliers charge a unit based retail tariff?**

2.4 The evidence we present in table 1 shows that the correlation between the number of customers and the volume of consumption each supplier has is not consistent. This indicates that some suppliers have more high consumption domestic customers than others.

2.5 We recognise that this misalignment may distort the revenue streams of suppliers. Without any figures we cannot comment on the extent of this as an issue or on the response of suppliers to it. It would be useful for suppliers to bring forward evidence on this point.

Table 1. Domestic market share by connections and consumption

	Market share connections (%)	Market share consumption (%)
Power NI	60.10%	57.40%
SSE Airtricity	24.10%	27.50%
Electric Ireland	6.40%	5.90%
Click Energy	3.30%	3.20%
Budget Energy	6.10%	6.00%

Source: UR Quarterly Transparency Report Q2 2017

2.6 Whilst we do not know the extent of the distortion, the effects could be long term and negative to consumers. For example, if the misalignment is not addressed suppliers may:

1. Reintroduce standing charges; and/or
2. Modify their market acquisition strategy to target larger users at the expense of low users.

**Q4.Do respondents agree that there are only two options? If you identify any alternative option please provide a full explanation.**

- 2.7 The Consumer Council does not wish to propose any alternative options. However, we ask the UR to consider expanding the scope of this review to E7 tariffs to assess whether it would be beneficial to consumers to remove the standing charge and ensure consistency across all electricity domestic consumers in NI.

**Q5.Do respondents have any views on the advantages & disadvantages of each option? If so, please give a full explanation.**

- 2.8 The Consumer Council broadly agrees with the advantages and disadvantages that the UR has outlined in the consultation paper. In particular we believe strongly that the introduction of standing charges would be a regressive step for consumers. We have outlined the main reasons below:

1. A standing charge would be financially detrimental to low use consumers. We have commented on this issue in points 2.1 and 2.2 of our response.
2. The current domestic tariff structure is long established in the electricity market retail and overall The Consumer Council believes it benefits consumers.
3. A further issue is one of consumer perception. The Consumer Council has anecdotal evidence from natural gas complaints where the application of

the minimum charge<sup>3</sup> has led to consumer dissatisfaction, loss of trust in suppliers and the perception of being unfairly charged. We are concerned that the introduction of a standing charge in electricity would be met with a similarly negative consumer response at a time when consumer trust is paramount to ensuring competition continues to develop in NI.

4. The standing charge would unnecessarily add complexity to electricity tariffs. This goes against the direction of travel in NI which is to make bills and tariffs easier to understand and compare between different suppliers. This encourages consumers to shop around for the best energy deal.

2.9 The consultation paper highlights potential issues that NIE Networks has identified. These are detailed in points 3.7 to 3.13 of the UR consultation and include potential volatility in the k factor, cross subsidisation of domestic self-generators, changes to the statement of charges and dealing with Long Term Vacant (LTV) sites.

2.10 We welcome the UR assurances that these issues are unlikely to materialise or materially impact on consumers. We note the UR intention to investigate further the regime for LTV sites and we look forward to reviewing the outcome.

**Q6. If option 2 was chosen and implemented do respondents think that there should be a supplier licence obligation to charge unit based domestic retail tariffs i.e. no standing charges?**

2.11 The Consumer Council supports in principle that the requirement to charge unit based domestic retail tariffs becomes a licence obligation to suppliers. This would provide certainty to consumers and suppliers by providing a level playing field.

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<sup>3</sup> Typically charged to credit meter customers who do not meet a minimum consumption threshold.

- 2.12 We note the UR point that the licence change “may limit the number and type of tariffs.” This would be an area of concern for The Consumer Council if this restricts innovation and choice in the domestic retail market.
- 2.13 We are unclear why the UR suggests that this may be the case and would like to see further evidence on this, and to what extent this may materialise and how. For example, evidence of potential impact on current products such as discounts on unit rates or loyalty/incentive payments.
- 2.14 However, based on the evidence available, The Consumer Council is of the opinion that the benefits outweigh any potential detriment.

### **3 Conclusion**

- 3.1 The Consumer Council supports strongly the adoption of option two. Based on the existing evidence, this will provide significant benefits to consumers and suppliers that outweigh the limited number of disadvantages identified. We ask the UR to consider extending the scope of this review to E7 tariffs.

If you require further information or you wish to discuss any aspect of this response please contact Paulino Garcia on 02890 251645 or [Paulino.Garcia@consumercouncil.org.uk](mailto:Paulino.Garcia@consumercouncil.org.uk).



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## Annex II

### NIEN

#### Response to UR Review of DUoS Domestic Charging Methodology

Nicola Sweeney  
Utility Regulator  
Queens House  
14 Queen Street  
Belfast  
BT1 6ED

22 November 2017

Dear Nicola

### **Consultation on Review of DUoS Domestic Tariff Charging Methodology**

NIE Networks welcomes the opportunity to respond to the Utility Regulator's (UR) consultation on the review of the DUoS domestic tariff charging methodology. The UR's proposal to replace the standing charge in the single rate domestic tariffs, T011 and T053, with a higher unit charge will affect circa 88% of Northern Ireland electricity customers. Having previously discussed this proposal with the UR and on review of the consultation, NIE Networks remain concerned regards the following points:

1. Under the UR's proposal to remove the standing charge, the Domestic DUoS tariffs would no longer be cost reflective. In addition electricity suppliers with larger consuming customers will subsidise suppliers with lower consuming customers. While the UR's consultation acknowledges the reduction in cost reflectivity, their proposal to remove the domestic standing charge is in conflict with the EU Directive 2009/72/EC<sup>1</sup> which states "*national regulatory authorities should ensure that transmission and distribution tariffs are non-discriminatory and cost-reflective*". The UR may wish to take legal advice on their proposal in respect to this EU Directive.
2. NIE Networks' revenue from the domestic DUoS tariffs would not be affected by the proposed changes to these tariffs. However network charges to electricity suppliers would be affected with most suppliers charged higher DUoS charges. NIE Networks anticipate that suppliers would most probably pass these increases on to domestic customers in their retail electricity bills. As a consequence customers with higher than average consumption (including some vulnerable customers and large families) could potentially incur higher electricity charges.

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<sup>1</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0072&from=EN>

3. The UR's proposal to remove domestic standing charges comes at a time when the GB electricity market is moving in the opposite direction i.e. towards more fixed rate network charges. This is in response to the growth in distributed generation and reduction in customer consumption. The UR's proposal to remove domestic standing charges is a regressive step and may potentially have longer term consequences on NIE Networks ability to change the structure of network charges in the future.
4. Under the electricity industry procedures more than 6,000 registered long term vacant (LTV) properties are charged a DUoS standing charge and no unit charge. As a minimum, under the UR's proposal, design changes will be required to NIE Networks' billing systems with potential changes required to market messages and suppliers own market systems in order to facilitate the LTV policy.

Further detail on our concerns is provided in responses to the consultation questions below.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Ballentine'.

**Roisin Ballentine**  
**Manager, Network Pricing & Billing**



## **Responses to the consultation questions**

### **1. Do respondents agree that where this consultation has an impact on the groups listed, those impacts are likely to be positive in relation to equality of opportunity for energy consumers?**

The UR's desire to have flat retail tariffs (i.e. no standing charge) for domestic customers to aid transparency and comparison of tariffs must be weighed up against the cross subsidy in customer payments that comes with flat tariffs. Applying flat unit price tariffs means any revenue previously received through standing charges will be recovered through higher unit charges and weighted towards customers with higher than average consumption. As a consequence some vulnerable customers will be impacted in a negative way by higher bills. For example, this could be the case for customers who are at home 24 hours a day, or households with dependents as they are likely to use more electricity and therefore will be impacted more by the higher unit price.

The customers that would be positively impacted by the UR's proposals are those customers with low or no consumption. Some of these customers will be more affluent customers with holiday houses or customers who can afford to install generation to reduce the electricity they import from the distribution network. Under the UR's proposal the network costs for these customers would be subsidised by the customers with higher than average consumption.

### **2. Do respondents consider that the proposals for the review of the Domestic DUoS methodology need to be refined in any way to meet the equality provisions? If so, why and how? Please provide supporting information and evidence.**

NIE Networks currently produce distribution network charges which are cost reflective and we consider that cost reflective charges meet the equality provisions. We believe that the UR's proposal goes against the equality provisions because the proposal will result in cross subsidy of the network charges between suppliers and ultimately domestic customers, including the groups considered in the equality provisions.

Domestic customers such as large families and persons with disability who are housebound are likely to have higher than average electricity consumption. Under the UR's proposals for domestic charges, higher network charges will be levied on suppliers for these customers, it is anticipated that suppliers will pass this increase on to their customers.

### **3. Do respondents agree that having a standing charge element in domestic DUoS charges and unit based retail tariffs means there isn't a level playing field for suppliers in the context of the current arrangements where all suppliers charge a unit based retail tariff?**

NIE Networks consider the current distribution charging arrangements which include a standing charge for domestic customers, provides a level playing field for suppliers because the charges are cost reflective. Distribution network costs charged to suppliers are the costs associated with providing the electricity network to the particular customer base of each

supplier. Suppliers can then pass these costs on to their customers under their chosen retail tariff structure.

Under the UR's proposal NIE Networks' income from distribution network charges will not increase however as the network charges will no longer be cost reflective, this will lead to cross subsidy of network charges between electricity suppliers. Those suppliers with larger consuming customers will pay more distribution network charges to subsidise suppliers with lower consuming customers.

We have calculated the potential financial impact of the UR's proposals on electricity suppliers using data from the 2016/17 tariff year. The result of this analysis was that the annual DUoS charges for one supplier would reduce by 1.6% while the charges to the other five suppliers would increase. The increases range from 1.6% to 2.5% for four of these suppliers and the charges for one supplier would increase by 17% due to the large domestic users registered to this supplier.

Contrary to the UR's statement that "*all things being equal, no domestic customer should pay more for network charges within their final unit price than they are paying under the current retail tariff structure employed by all NI domestic suppliers*", NIE Networks believe there is a high probability that suppliers would pass the additional network costs on to their customers and some domestic customers would experience an increase in their retail electricity charges. This could affect some vulnerable customers and families.

#### **4. Do respondents agree that there are only two options? If you identify any alternative option please provide a full explanation.**

The UR's consultation paper states that their desire to have unit only DUoS charges for domestic customers is to aid transparency and comparison of domestic tariffs. However, the UR's consultation proposals will not guarantee these objectives as electricity suppliers are not restricted by network tariff structures.

Further options are available which would help to achieve the objective of having comparable tariffs without having to take a regressive step away from cost reflective DUoS charges. For example, the UR could adopt tariff display rules similar to the rules that Ofgem implemented in GB several years ago. In GB suppliers must display tariffs using the standard formats set by the Tariff Information Label (TIL) and Tariff Comparison Rate (TCR). The TCR can be used as a first point of comparison for any customer when comparing tariffs as it will boil down the costs of a tariff (taking account of the unit rate and standing charge) into one p/kWh figure. Implementing new tariff display rules would mean that the DUoS charge could continue to be calculated on a cost reflective basis, and suppliers could also charge customers on a cost reflective basis if they wished to do so. In terms of costs this would be more appropriate and fair for all domestic customers.

#### **5. Do respondents have any views on the advantages & disadvantages of each option? If so, please give a full explanation.**

For the purpose of the consultation paper, when describing the advantages and disadvantages of option 1 (Do nothing to current DUoS standing charge structure for domestics), the UR seems to have made the assumption that suppliers will amend the retail tariffs to include a standing charge going forward. Has the UR received any indication from

suppliers that this will be the case? We would ask the UR to clarify if they have knowledge that suppliers are intending to change their tariff structure.

Conversely, when describing the advantages and disadvantages of option 2 (Introduce “per unit” domestic DUoS charges and remove the current standing charges element) the UR has assumed that suppliers will retain the current flat retail tariffs.

Under option 1 and 2, suppliers will have the same ability to retain or change their tariff structures going forward. Therefore it is not appropriate to make these assumptions without any explanation as they may cause confusion in the assessment of the proposed options and could be misleading.

#### Option 1 - Advantages:

In relation to option 1, we agree with the advantages listed by the UR. The DUoS charges will continue to be cost reflective and therefore compliant with the EU Directive and suppliers would retain the option of designing their own tariff structures so that they can choose to have flat retail tariffs or introduce a standing charge to make retail tariffs more cost reflective.

We also consider that option 1 provides additional benefits:

- No system/process changes are required to retain the status quo; and
- It will be easier to move from the status quo to future changes resulting from a more fundamental review which are likely to include more fixed charges, rather than taking a step backwards.

#### Option 1 - Disadvantages:

We consider that the disadvantages listed by the UR for option 1 are not appropriate. The UR's points assume that suppliers will introduce standing charges to retail tariffs.

We believe that low volume users being required to pay a standing charge regardless of their usage is an advantage for customers in general, rather than disadvantage. If all customers are charged the appropriate costs for the provision of an electricity network to their property then there will be no cross subsidy between customers. It is unfair to expect larger user to cover the costs of low volume users.

We assume points 2, 3, 4 and 6 listed as disadvantages by the UR relate to tariffs being more difficult to compare **if** suppliers decide to introduce a standing charge and hence the UR believes this could cause confusion and less protection for vulnerable customers. We have raised concerns in our response about the impact of the UR's proposals that some customers (including vulnerable customers) would be subject to higher bills under option 2 and tariffs are likely to be more volatile on a year to year basis. Therefore we believe vulnerable customers will be more protected, in terms of price, under option1.

#### Option 2 - Advantages:

We agree that option 2 could provide an incentive for larger user to be more energy efficient as larger users will be affected the most by increased prices under option 2.

However we are unclear about why the UR would consider it is appropriate, and indeed an advantage, for larger consumers to subsidise the charges for low volume users . This will

result in some fuel poor customers and vulnerable customers with higher consumption paying higher costs to cover the costs for other customers.

While we accept that flat retail tariffs are more simple and easily comparable for customers, option 2 does not guarantee that this will continue to be the case as suppliers will still be entitled to amend their retail tariff structures. There are other methods available to the UR to assist in comparability of tariffs without moving away from cost reflective prices.

#### Option 2 - Disadvantages:

We agree with the disadvantages listed in the consultation paper. In addition we consider that the following disadvantages are also applicable to option 2:

- Option 2 is a regressive step moving away from cost reflective DUoS charges and could create obstacles for the future review of DUoS charges that will take account of the GB market where they are investigating the introduction of more fixed charges.
- Suppliers with a customer base of higher consuming customers will be subsidising the DUoS costs for suppliers with a customer base of low consumption customers;
- Domestic electricity prices may become more volatile on a year to year basis.

#### **6. If option 2 was chosen and implemented do respondents think that there should be a supplier licence obligation to charge unit based domestic retail tariffs i.e. no standing charges?**

If the UR is minded to introduce licence conditions on suppliers then we would ask that these changes do not create a barrier to future changes in NIE Networks' DUoS tariff structures, especially as this proposal is seen by the UR as an "interim measure". A more fundamental review of DUoS tariffs in the future would likely result in the reintroduction of standing charges or fixed charges.

## Annex III

### NIHE

Consultation paper on the review of DUoS  
domestic tariff charging methodology

## **NIHE Response**

Dear Ms Sweeney

Thanks for consulting on this.

We welcome the retention of a charging regime where very low users pay less towards the costs of the electricity system.

However, if we follow the direction of UK government policy in installing alternatives to oil boilers from the 'mid 2020s', we should then be installing more heat pumps.

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/651916/BEIS\\_The\\_Clean\\_Growth\\_online\\_12.10.17.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/651916/BEIS_The_Clean_Growth_online_12.10.17.pdf)

Levying the same charges on every unit of electricity makes heat pumps very expensive to run, as they may use a further 5000 kWh PA or more and cost more than heating with oil, a higher carbon fuel.

Another issue relating to new technology is that consumers who can afford to install Photovoltaic panels and battery systems will be contributing less to the costs of generation and the grid, and they will also be using a bigger proportion of their electricity when it is more expensive on wholesale markets in winter and when the grid is also more stressed.

Electric Vehicles will also require grid reinforcement, and these are likely to be purchased by higher income consumers first.

Q1      We consider the impact of your change to be positive for vulnerable consumers at present.

However, this can change with the adoption of new technologies, so it seems appropriate to keep the structures of tariffs under review so that they provide appropriate investment incentives, as well as being a mechanism for cost recovery. E.g. Incentives available when the system operator can connect or limit certain electric heating or battery charging loads.

As for Ofgem: <https://www.ofgem.gov.uk/news-blog/our-blog/smart-use-grid-capacity-and-spreading-costs-fairly>

e.g. The high current rating of domestic supplies may lead householders to assume that they can all draw on the peak rating when required, though this would 'break' the system.

Even before any system-wide introduction of 'Smart' metering, it could make sense to allow concessionary tariffs for people whose new installations will not overload the system at peak times.

e.g. For special 'interruptable' electric heating supplies where the load can be reduced on command from the System Operator, or immersion heaters connected to prevent wind curtailment, or when an operational oil boiler is installed to be switched on to avoid peak winter peak loads from an air source heat pump\*.

Yours Faithfully

Andrew Frew

## Annex IV

### Power NI

#### Review of DUoS Domestic Charging Methodology – Power NI Response

# **Review of DUoS Domestic Tariff Charging Methodology**

**UR Consultation**

**Power NI Response**

21 November 2017



## Introduction

Power NI welcomes the opportunity to respond to the Utility Regulator (UR) consultation in relation to the Distribution Use of System (DUoS) charging methodology applied to domestic tariffs.

As the UR described, in the late 1990s Power NI (then NIE Supply) worked closely with the utility regulator (OFREG) to introduce socially progressive tariff and metering structures that helped address identified pricing issues that impacted many fuel poor and vulnerable customers in Northern Ireland i.e.:

- The impact of network related retail standing charges on low consumption domestic customers, and
- Establishing a new prepayment system that supported a retail price that was at least on a par with standard tariffs and potentially lower.

This work resulted in Power NI introducing:

- A Home Energy tariff with no standing charge in April 1999. This was the first standard domestic tariff in the UK and Ireland that was unit based only; and
- In 2000, the Keypad prepayment system which offers discounts off standard tariff rates.

Those changes are still prevalent today as no domestic retail electricity tariffs (with the exception of Economy 7) offered by any supplier includes a specific fixed standing charge and 43% of all domestic customers in Northern Ireland use the Keypad prepayment system. Power NI concurs with the UR's view that both these measures have been a success and that any erosion or change to the application of unit based tariffs would be an unwelcome development.

The retail electricity market is however continually evolving and as such it is important to monitor and ensure that conditions do not erode the support of these policy objectives. The advent and deepening of domestic retail electricity competition while supporting the use of the keypad prepayment solution, has undoubtedly threatened the continuation of a unit only based approach to domestic tariffs. The reason for this, as identified by the UR is that the underlying network cost allocation remains based upon a standing charge plus consumption methodology.

It is therefore wholly appropriate that the UR continually monitors issues which may adversely impact beneficial market outcomes.

## Specific Questions

**Q3 Do respondents agree that having a standing charge element in domestic DUoS charges and unit based retail tariffs means there isn't a level playing field for suppliers in the context of the current arrangements where all suppliers charge a unit based retail tariff?**

*Power NI response:*

As the basis of DUoS charging is 'standing charge plus' there is a clear disconnect between end customer tariffs and underlying cost components. This means that end domestic tariffs are not strictly cost reflective and there is a cross subsidy from customers consuming larger amounts of electricity to those consuming less. This was by design and as stated above was part of the socially progressive changes made in the late 1990s. As this approach has been adopted by all suppliers it also meets the regulatory requirement of having easily comparable, clear and transparent tariffs.

It does however have an effect on competition; from a suppliers perspective only a balanced portfolio of high and low consuming customers will negate the impact of the cross subsidy. A disproportionately weighted portfolio can create a potential under recovery for a supplier which in turn would result in tariffs being increased. This compounding negative effect negates the socially progressive original design goal.

Power NI concurs with the UR's assessment that this is a market distortion which can only be rectified by either the reintroduction of the explicit charging of standing charge or aligning the application of DUoS tariffs with the current end user tariff methodology.

**Q4. Do respondents agree that there are only two options? If you identify any alternative option please provide a full explanation.**

*Power NI response:*

Power NI agrees with the UR's assessment that there are only two options; do nothing which will result in the eventual reintroduction of domestic standing charge or mandate that DUoS charging is based upon a per unit basis only.

**Q5. Do respondents have any views on the advantages & disadvantages of each option? If so, please give a full explanation.**

*Power NI response:*

When considering the advantages and disadvantages of each option it is important to assess the impact and severity. Option One, 'do nothing', will inevitably result in the reintroduction of domestic standing charge. As the UR has identified the reintroduction of domestic standing charge would have an adverse impact on low volume customers,

vulnerable customers, transparency, easy of tariff comparison and create confusion. It is Power NI's view that these disadvantages should be avoided and that it is inherent upon the UR to stake steps to avoid the re-introduction of a domestic standing charge.

The removal of the standing charge from the DUoS charging methodology is a comprehensive solution to this issue. It means that there is no basis for the reintroduction of a domestic standing charge and therefore ensures the protection of low consuming and vulnerable customers while also incentivising energy efficiency, supports transparency and enables easy price comparison.

The UR has identified that the removal of DUoS standing charge is contrary to the direction of travel in other jurisdictions and that it exposes NIE Networks to greater forecasting risk. While acknowledging that both of these are issues, Power NI does not consider them to be significant enough to merit not changing to DUoS unit based billing.

Customers who have installed (usually renewable technologies) to self-supply will fall into the low consuming customer bracket while potentially not being vulnerable and therefore could theoretically not cover the fixed cost element of their supply. While acknowledging this, Power NI does not, at this point, consider that to be particularly disadvantageous. The UR's analysis presented in the consultation suggests that self-generating customers are still in the higher category of consumption therefore do cover their fixed cost obligations however should that change it could still be argued that such a regime will support the uptake of renewables as an energy efficiency measure (in line with governmental objectives) and should the quantum increase significantly (which is unlikely given the reduction in the explicit and financially more significant support mechanisms) the UR has discretion to introduce a specific DUoS tariff for such installations which akin to Economy 7 could retain an explicit standing charge.

In relation to the NIE Networks forecasting issue, Power NI concurs with the UR that as NIE Networks is a monopoly business this becomes a 'k' correction factor issue and that given the volume of historic data NIE Networks possesses forecasts should retain a high degree of accuracy.

**Q6. If option 2 was chosen and implemented do respondents think that there should be a supplier licence obligation to charge unit based domestic retail tariffs i.e. no standing charges?**

*Power NI response:*

Power NI strongly believes that option 2 should be adopted and DUoS charging moved to a unit based approach.

In relation to a specific licence obligation, should the DUoS basis be changed it would be difficult for any supplier to justify creating and implementing a domestic retail tariff that has an explicit standing charge. As the UR is aware however, Power NI is still price regulated in the domestic electricity sector and is subject to significantly more licence conditions than other suppliers. In Power NI's view the UR could interpret those specific

conditions to give effect to their desired outcome. Power NI is not in a position to consider whether the generic supply licence affords the UR the same discretion.