

UR Consultation on modifications to the Price Control conditions

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If you have any questions in relation to our response, please don't hesitate to contact me at lisa.fahy@sse.com



Introduction

SSE welcomes the opportunity to comment on the URs Consultation on modifications to the Price Control conditions of the firmus energy (distribution) limited licence.

The consultation sets out the Utility Regulator's thinking on the principle of changing the form of the firmus energy distribution price control. The proposal is to change the form of the price control from a price cap to a revenue cap.

Response

As a price regulated supplier¹ SSE wishes to raise a couple of points in relation to the proposed methodology and assumptions to be employed in revenue cap calculation.

General comment

SSEs view is that the consultation paper is that little analysis has been carried out to establish the risk and uncertainty associated with developing an energy network.

The UR refers to the age of the firmus energy distribution network and duration of the current control approach as a supporting factor in proposing the change in methodology. This factor, while important, should not be a default milestone to signal a change in price control form. The regulator must appreciate that businesses' while similar in nature may have relevant differences such as customer base, development strategies or other business risks.

WACC/margin assumptions

The most concerning aspect of the paper for SSE is the apparent assumption that companies covered by the same form of control be it price cap or revenue cap face the same risk, cost of equity and debt. This stance does not give due consideration to the differences in energy businesses in Northern Ireland. While this view may allow for ease of comparison from a regulatory perspective, SSE is concerned that it is not reflective of the true industry conditions and market requirements.

Conclusion

In summary, while SSE is not opposed to the change in the control methodology, our concern is with the UR view that all businesses operating in the same business sector face the same risks, and operate in the same way. This is not a realistic reflection of the industry. Price controls are intended to provide allowances based on the requirements of an efficient new entrant. This is not being supported in the NI market as the cost of business is assumed to be the same for all market participants in a price controlled environment.

¹ SSE Airtricity Gas Supply Northern Ireland Ltd. is licenced by the UR and has a regulated tariff for customers using less than 25,000 therms per annum.