



The Consumer Council

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116 Hollywood Road  
Belfast  
BT4 1NY

Linda Beirne  
Gas Directorate  
Queens House  
14 Queen Street  
Belfast  
BT1 6ED

13 June 2012

Dear Linda,

**Re: BGE (NI) (NI) Ltd Price Control Review 2012-17 Initial Proposals for consultation**

The Consumer Council (CCNI) welcomes the opportunity to respond to this consultation.

CCNI is an independent consumer organisation set up in legislation to safeguard the interests of Northern Ireland consumers, particularly the vulnerable and disadvantaged. We work to promote and protect consumer interest and bring about change to benefit consumers. Our aim is to make the consumer voice heard and make it count.

We represent consumers in the areas of transport, water and energy. We also have responsibility to educate consumers on their rights and responsibilities and to equip them with the skills they need to make good decisions about their money and manage it wisely.

With fuel poverty levels in Northern Ireland at 44 per cent, many households are struggling to adequately heat their home, it is important that the regulatory structures aim to protect consumers and minimise the cost of energy to consumers. In dealing with network price controls the Utility Regulator, (the Regulator) must keep in mind that its' primary objective is to protect the interests of consumers.

With regards specifically with the Regulator's Initial proposals for consultation around BGE (NI) Ltd Price Control 2012-2017 we would like to make the following comments:

CCNI notes the Regulator's reference to our response to the initial consultation in December 2011 and welcomes the inclusion of transparency and cost effectiveness as two of the regulatory principles that are being applied. These are reflected in the Regulator's decision to engage engineering consultants and undertake opex benchmark comparisons, amongst others, to inform its proposals.

CCNI shares the Regulator's concerns about BGE (NI) decision to change the reporting format used. It is essential that the information presented by BGE (NI) in relation to its operational and capital expenditure is transparent and comparable across different price control periods. Therefore we support the Regulator's proposal to introduce a standard cost reporting format and the restrictions imposed on BGE (NI) to ensure the transparency of its operational expenditure. However, we are disappointed that the Regulator has not introduced such a measure previously as poor information makes for poor decision making and poor monitoring of performance.

### **Controllable operating expenditure**

CCNI notes the Regulator's plan to reduce BGE (NI)'s proposed controllable opex by 26 per cent as shown in table 3. Under the Regulator's proposal BGE (NI)'s controllable opex for the next Price Control period would be broadly in line with BGE (NI)'s actual Opex for the period 2007-2010 that is included in the Regulator's document.

We are of the opinion that the Regulator's proposal is in the best interest of consumers; for example, the Regulator's figure of £2,954k for 2012-2013 is 2 per cent lower than the actual expenditure for 2009-2010.

We would like to make the following additional comments:

One area of concern CCNI is the Regulator's decision to approve provisionally BGE (NI)'s proposed expenditure of £775k over the Price Control period in ALO & Agricultural Remedials. We are of the opinion that given the increase in cost in this area, unless reasonable supporting evidence is provided, these costs should be brought in line with the actual expenditure recorded in previous years.

With regards to wayleaves management costs, BGE (NI) can minimise its expenditure in this area by negotiating with land owners and controlling the area and size of land on which they locate the pipework. Whatever the cost line wayleaves are posted under, they should not be passed through in full to consumers. This principle has already been established by the Regulator in its draft proposals for the NIE (RP5) Price Control.

## **Uncontrollable operating expenditure**

CCNI recognises the uncertainties that this area of expenditure generates for the Price Control period 2012 - 2017. These are associated with the possible work required in relation to CAG implementation, Regulation 715/2009 and EU network code. We are of the opinion it would not be in the best interest of consumers to approve expenditure in those areas at this moment in time.

CCNI notes the Regulator's proposal to consider a reopener specific to some areas of uncontrollable operating expenditure. In such cases BGE (NI) should be required to provide detailed evidence and data on any forecast costs on a project by project basis so that the Regulator can make a decision with the best interests of consumers at heart. Once the costs are known they should be recovered in instalments throughout the period of this and future price controls.

## **Capital expenditure**

CCNI acknowledges the Regulator's plan to issue a separate consultation on BGE (NI)'s Capex as outlined in point 1.3 of the document. We will comment about this area of expenditure in due course.

We note the comment though about BGE (NI) lacking "a coherent approach to asset replacement and refurbishment". We are concerned that BGE (NI) does not operate a recognised Asset Risk Register such as PAS55. Therefore consumers have missed potential savings that could have been made and will continue to do so until this matter is rectified. We call on the Regulator to enforce the introduction of PAS55, which is best industry practice in Great Britain, during the Price Control period 2012-2015. However, as is the case in GB, consumers should not be required to pay the cost of it implementing such a system.

## **Customer impact**

CCNI is satisfied that the Regulator's proposed Opex and reclassification of Capex for BGE (NI) for the period 2012-2017 will have a negligible impact on consumer's bills<sup>1</sup>, £0.03p annually compared to £2.43 under BGE (NI)'s proposal. We would oppose any increase on this figure based on the evidence provided, particularly as potential additional expenditure is yet to be accounted for and approved, including specific areas of uncontrollable Opex and Capex associated to unspecified projects.

CCNI calls on the Regulator to continue giving priority to the interest of consumers when assessing any additional Operational or Capital expenditure that BGE (NI) puts forward in relation to projects to be carried during the Price Control period 2012-2017. This will minimise the financial impact on

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<sup>1</sup> An additional £0.03p annually compared to the previous BGE (NI) price control decision.

consumers while ensuring that BGE (NI) achieves the highest possible efficiencies.

Whilst the proposed annual saving is very welcome, we believe that the Utility Regulator should also consider if this money can be used to increase the use and accessibility of the gas network in the Ten Towns licence area to reduce fuel poverty. It could do this by enabling and encouraging fuel poor households to move from the more expensive home heating oil to natural gas. For example the money could be used:

- As an incentive to help fuel poor households to convert to gas;
- To extend the network within the Phoenix Licence area to allow more homes to connect;
- To subsidise energy efficiency measures for fuel poor households.

The Consumer Council would be keen to discuss with the Utility Regulator how this could be taken forward.

If you wish to discuss this response in more detail, please do not hesitate to contact Paulino Garcia on 028 9067 4839 or by email at [pgarcia@consumercouncil.org.uk](mailto:pgarcia@consumercouncil.org.uk) .

Yours sincerely,

**Paulino Garcia**  
**Consumer Affairs Officer**