



Price Control for Northern Ireland's Gas Transmission Networks GT17

January 2017

1 Introduction

- 1.1 The Consumer Council is a non-departmental public body (NDPB) established through the General Consumer Council (Northern Ireland) Order 1984. Our principal statutory duty is to promote and safeguard the interests of consumers in Northern Ireland (NI).
- 1.2 The Consumer Council has specific statutory duties in relation to energy, postal services, transport, and water and sewerage. These include considering consumer complaints and enquiries, carrying out research, and educating and informing consumers.

2 Executive Summary

- 2.1 The Consumer Council supports the development of an efficient natural gas industry in NI. Natural gas offers consumers a choice of fuel that has been cheaper than oil for a sustained period of time¹, provides consumer protection through its regulatory framework, is cleaner than other fossil fuels and provides payment methods that help consumers manage their spending on energy.
- 2.2 The GT17 Price Control is an opportunity for the Utility Regulator (the Regulator) to continue to safeguard consumers and promote the development and maintenance of an efficient, economic and co-ordinated gas industry in NI. The interests of consumers must be at the heart of the Final Determination.

¹ Over the last 5 years, home heating oil has been on average 3.71% more expensive than natural gas. www.phoenixnaturalgas.com/why-natural-gas/gas-vs-oil/.

3 Operating Expenditure (Opex)

3.1 Mutual Energy Limited (MEL)

The Consumer Council acknowledges that the submission from MEL is £83.3m against the Regulator's draft determination amount of £78.5m – which equates to 94% of the submission. We note that the largest cost variance lies with the system operation. The Regulator has outlined that MEL has failed to provide sufficient evidence to support an upgrade to SCADA and communications. On this basis we understand the Regulator's decision to remove £800k from the draft determination.

3.2 Gas Networks Ireland (UK)

GNI (UK) in the draft determination has received £30.6m, equating to 88% of its £34.8k submission. We accept the Regulator's rationale that exchange rate fluctuations and the current weak pound cannot be considered as validity for increased staff costs. We welcome the analysis provided by the Regulator to support its decision.

3.3 Contractual Joint Ventures (CJV)

The Consumer Council welcomes the CJV initiative of having a single system operator in place for 1 October 2017. We agree that this initiative will help to promote the development of the gas industry and deliver cost efficiencies.

3.4 In order to ensure that CJV is successful we understand the importance of ensuring the companies receive their respective revenue entitlements. It is absolutely essential however that the Regulator is completely satisfied that the mechanisms in place for companies to detail the transfer of necessary costs are adequate. There must be absolute confidence in the accuracy of these proposed uncontrollable costs.

4 Replacement Expenditure (Repex)

4.1 The Regulator has indicated a lack of evidence presented by both MEL and GNI (UK) in support of respective proposed projects. As such MEL has received an allowance of £1.9m against its request for £5.0m while GNI (UK) only received £0.4m against a request for £5.9m. The Consumer Council can understand the Regulatory allowance provided in the absence of sufficient and robust evidence from the TSOs to substantiate otherwise.

5 Incentives and Innovation

5.1 In the Regulator's consultation on the proposed approach to the GT17 Price Control the Consumer Council raised queries relating to the Social Enhancement Fund (SEF). It is now apparent that this fund has effectively lain dormant. As such we agree that it should cease to collect further funds with immediate effect and future operating costs be returned to consumers at the end of the gas year.

5.2 We note that the Regulator will consider the future mechanism of the SEF, estimated at circa £5m, as part of its proposed governance review. The Consumer Council believes this fund must be used to benefit consumers as originally intended and we would expect any governance review to protect this arrangement.

6 Financial Aspects

6.1 The Consumer Council believes the analysis carried out to determine an appropriate Asset Beta for GNI (UK) is thorough and reflects similar markets. Whilst we are not best placed to make our own determination, it is clear that the estimates of Asset Beta demonstrated in Table 28 and CMA evidence do not support the GNI (UK) proposal of 0.44.

6.2 The Regulator has outlined its view that the WACC required to fund GNI (UK) could lie somewhere between 1.0% and 2.0%. It then takes a “conservative” approach and proposes a rate of 2.0%. It would be helpful for the Consumer Council to understand how the decision was arrived at to propose the highest value, as opposed to the lower or mid value. In our view it is insufficient to justify the proposal of 2.0% on the basis of taking a “conservative” approach. This proposal clearly reduces the risk to GNI (UK) and is ultimately detrimental to consumers.

7 Conclusion

- 7.1 The Consumer Council aims to strike a balance between the growth and development of natural gas whilst ensuring that the interests of consumers are protected. In our view the overwhelming majority of this Price Control does achieve this balance. We welcome that the draft determination at present seeks to achieve a £0.50 increase in annual bills, as opposed to the £5 had the respective business plans been implemented.
- 7.2 The Consumer Council remains committed to working in partnership with the Regulator and the gas industry to develop natural gas and its accessibility, to promote competition and most importantly, to protect the interests of consumers.
- 7.3 If you would like further information or to discuss any issues in this paper, please contact Mark Crawford on 028 9025 1640 or mark.crawford@consumercouncil.org.uk.



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