



Price Control for Northern Ireland's Gas Transmission Networks

GT17

August 2016

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 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.
- 1.3 The Consumer Council welcomes the opportunity to respond to the Utility Regulator's (the Regulator) consultation on its proposed approach to the Price Control for Northern Ireland's Gas Transmission Networks GT17.
- 1.4 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.

¹ Over the last five years, home heating oil has been on average 6.17% more expensive than natural gas.
www.phoenixnaturalgas.com/why-natural-gas/gas-vs-oil/

2 Approach

2.1 The Consumer Council acknowledges the Regulator's experience in its approach to price controls within the regulated NI utility market. Through this experience we trust in the principles adopted by the Regulator to ensure its approach is proportionate. We also believe there may be merit if the Regulator, for the benefit of a wider audience, sets out its primary objective in regulating gas.

“The principle objective of the Department and the Authority in carrying out their respective gas functions is to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland²”.

2.2 We agree that at the outset it is incumbent upon the licence holders to present robust and informative submissions with the required historic information to demonstrate their requirements. We welcome the introduction of a common cost reporting template and standardised business plan submission format as applied in the recent GD17 price control. Furthermore in order to strengthen this consistent approach we agree with the proposal to align all price control review periods which will enable effective comparison of licence holders.

² The Energy (Northern Ireland) Order 2003

- 2.3 The Consumer Council broadly supports the opportunity for licence holders to enter into a Contractual Joint Venture (CJV) in order to offer NI a single system operator for its high pressure network. We welcome the Regulator's robust analysis of any business plans submitted to ensure contracts in place are the most cost efficient for consumers.
- 2.4 Any realignment during the price control as a result of changing circumstances must be closely monitored as stated. Cost efficiency savings that benefit consumers and overall consumer confidence in the gas industry are vital. If any inappropriate behaviour is identified we expect remedial action and if necessary enforcement action to be taken.
- 2.5 The Consumer Council is reassured that the Regulator has defined capital expenditure against asset replacement. The specific provision within the business plan and cost reporting templates should prevent any ambiguity from licence holders.
- 2.6 In respect of Uncontrollable Operating Expenditure, we support the Regulator's proposal to modify and align all licences to the preferred model of GNI (UK), in order to provide transparency to network users and consumers.
- 2.7 The Consumer Council welcomes the governance review of Mutual Energy Group licence holders as it is not currently transparent to consumers. Furthermore we would also welcome

the review, and would like additional information about the Social Enhancement Fund (SEF) and the potential benefits it could deliver for all gas customers in NI. The Regulator states that this fund currently has a balance of £5m although no new funds have been added since the previous price control in 2012. We would appreciate the following information:

- Has any of the SEF been spent during the period of its existence and if so, on which projects or for what purposes?
- If the SEF was discontinued what would happen to the existing funds? and
- What alternative mechanism would be put in place to manage future surplus that is not returned directly to consumers?

2.8 We are pleased that the Regulator sets out its intention to review Weighted Average Cost of Capital. We believe consideration of elements such as level of risk, market conditions and all relevant circumstances will offer greater assurance and transparency for consumers.

3 Stakeholder Engagement and Social Impact

3.1 The Consumer Council welcomes the Regulator's commitment to ensuring the views of consumers and key stakeholders are taken into consideration during the GT17 price control process.

3.2 As part of this process we would appreciate an advance programme of engagement early in the process to help inform our

approach to this price control. We also believe business plan submissions should be made readily accessible, by either licence holders or by the Regulator in order to inform respondents. We look forward to working with the Regulator to help ensure the price control is fair and delivers the best possible deal for consumers.

- 3.2 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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