



**Consultation: NIE Networks' Electricity Transmission Licence and
NIE Network's Electricity Distribution Licence Modifications**

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The Consumer Council welcomes the opportunity to respond to the Utility Regulator's (the Regulator) consultation on proposed modifications to the Northern Ireland Electricity (NIE) Networks' Electricity Transmission Licence and Electricity Distribution Licence.

The Consumer Council agrees that in the absence of contestability in connections the pass-through principle for connection costs or income presents an imperfect but currently best option for protecting the interests of consumers that require connection to the electricity network.

The Consumer Council agrees that any move away from the pass-through should be done in a holistic and transparent manner with full consultation. Under this system if NIE Networks receives more income from the connecting party than the costs it incurs to facilitate the connection, the net amount is passed through to the RAB and the consumer base benefits. However, the Consumer Council agrees with the CMA's view that the pass-through mechanism does not adequately help consumers who are overcharged. Given the detriment to an individual who overpays for a connection is much more significant than the benefit experienced by each individual consumer when considered as member of the consumer base, the pass-through principle is an imperfect mechanism for sharing the cost risk among consumers.

Despite the imperfections of the pass-through principle, the Consumer Council believes the mechanism provides greater protection to consumers than a situation in which the pass-through is removed and NIE Networks as the sole provider of connections can add/subtract from its profits any surplus/deficit funds accrued from connections payments. Under such a situation there is a risk that given NIE Networks would be unable to recover from the RAB costs resulting from inaccurate estimates, it would err on the side of caution and provide quotations for connections based on the highest end of the "reasonable estimate" of costs it would potentially incur in accordance with the terms of the Connection Charging Statement. This could result in an increase in

instances in which the individual requiring the connection overpays, with no subsequent benefit to the consumer base via pass-through to the RAB. In light of this, the Consumer Council agrees with the Regulator's position that removing the pass-through arrangement without a full review of the Connection Charging Statement is not in the public interest. The Consumer Council also agrees that a review of the NI electricity connections regime should be considered in the context of the ongoing contestability program.

The Consumer Council is supportive of the principle of contestability in connections in Northern Ireland. It explained in its response to the Regulator's 2014 consultation on the introduction of contestability in connections that it recognises contestability would increase choice for consumers and the introduction of competition would potentially deliver benefits in terms of lower charges, improved connection times and better customer service. The introduction of contestability should also act to prohibit firms that facilitate connections from overestimating costs as this would make their pricing uncompetitive and place them at disadvantage in the market. The Consumer Council therefore believes that the pass-through mechanism should remain in place for all aspects of connections charging until contestability in connections has been introduced and there is sufficient competition in the market to protect the interests of consumers requiring connections to the electricity network.

The Consumer Council recognises, however, that the Regulator's recent Contestability in Connections Decision Paper outlines the various activities that it recommends should be considered contestable and non-contestable. Where an activity is deemed non-contestable and NIE Networks remains the sole provider for facilitating that aspect of the connection, it may be appropriate to retain the pass-through mechanism for charges associated with these activities, in order to share the risk among consumers.

The Consumer Council recognises the Competition Commission's decision to restrict the Regulator from including within the D5 mechanism additional allowances for distribution works required to facilitate transmission load-related developments may result in unintended consequences for D5 projects. The consultation paper explains the Competition Commission's Final Determination forecast the transmission and distribution component of the representative domestic customer's annual bill to reduce by approximately £10 relative to RPI by the end of the four years to September 2017. The Regulator has not, however, explained the extent to which its proposed modifications that would allow it to approve additional distribution allowances as part of an approved transmission load-related project would have on consumers' bills. The Consumer Council cannot determine from the information presented whether the Regulator's proposal is in line with its objective to promote the short- and long-term interests of consumers. In the absence of this information, the Consumer Council is unable to support or oppose the proposal.

The Consumer Council agrees with the Regulator's assessment that the Competition Commission's final determination is clear that asset replacement expenditure should be excluded from the scope of D5 . Therefore the Consumer Council has no reason to disagree with the Regulator's decision to present Licence modifications which exclude asset replacement costs from the scope of the D5 design.

The Consumer council does not have the financial expertise to take a view on the depreciation calculation issue addressed in the consultation paper. However, we stress the importance of ensuring that the Regulator promotes the best interests of consumers in taking its decision.

If you require any further information, or to discuss any aspect of this response, please contact Andy McClenaghan on 02890 251621 or andy.mcclenaghan@consumercouncil.org.uk.



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