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The Utility Regulator Draft Corporate Strategy (2019 –  
2024) Consultation

firmus energy Response

*31 January 2019*

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## **Introduction**

Firmus energy operates a bundled distribution and supply business within its Ten Towns Licensed Area pursuant to an established regulatory framework, made up of the terms of the licences granted in March 2005 and the legislative regime set down in the Gas (Northern Ireland) Order 1996 (as amended). In the Greater Belfast and Larne Area firmus energy has held a gas supply licence since February 2006.

Firmus energy is committed to working with the Utility Regulator (UR), The Department for the Economy (DfE), the Consumer Council for Northern Ireland (CCNI) and other stakeholders in order to provide the benefits of natural gas to as many consumers as possible in Northern Ireland – in a socially responsible and consumer focused manner. To this end, we welcome the opportunity to respond to the UR’s consultation on its draft Corporate Strategy 2019-2024.

## **The UR Overarching Purpose of Protecting and Empowering all Consumers**

Firmus energy is supportive of this overarching objective and recognises the importance of protecting and empowering all consumers.

For the avoidance of doubt, firmus energy considers “consumers” to represent our current and future Distribution connections and our current and future Supply customers.

The UR has proposed 3 strategic objectives to facilitate its overarching purpose.

## **Strategic Objective 1: Promoting markets that deliver effective competition, informed choice and fair outcomes**

### **Competition**

Firmus energy has consistently advised, in industry forums, on the need for reforming the natural gas domestic market in Belfast, with reference in particular to the domestic new connections process. We believe that amendments to this process, specifically the removal of a commissioning supplier, would develop market competition to the benefit of domestic consumers in Belfast.

The current absence of another domestic supplier in the Ten Towns Licensed Area suggests it might be reasonably viewed as a market that may not offer the margins or financial yields necessary to make market entry economically viable.

One area that could be influencing domestic competition and acting as a potential barrier to market entry, is meter reading. We believe it is both appropriate and necessary for the UR to provide industry with feedback regarding the transfer of meter reading responsibilities to the Network Operators, as is the case for the Electricity Network in NI.

### **REMM Reporting and Market Analysis**

Firmus energy currently provides Retail Energy Market Monitoring (REMM) Data and compliance information to the UR on a quarterly, bi-annual and annual basis. We recognise the importance of this data in terms of consumer protection, markets analysis and regulatory compliance, however, any enhanced energy market monitoring, reporting and analysis must be proportional to the additional

benefit received. Supplementary data proposed for collection must relate to the overall UR strategic objectives and be appropriately considered by UR in terms of its benefit. Stakeholder consultation is key, prior to any broadened reporting requirements being implemented.

### **Protecting Vulnerable Customers**

Increased protection for vulnerable consumers must be a paramount aspiration for the UR and, as such, firmus energy will continue to work closely with all stakeholders to ensure the continued protection of those most in need. Significant progress has been made over the past year in industry forums, to better understand what it means to be vulnerable, and in particular, to recognise transient vulnerability. This commitment to understanding vulnerability from industry stakeholders was apparent most recently at the UR's Alzheimer's Society workshop in January 2019. Firmus energy has recently provided its customer facing employees with J.A.M. card training.

### **Wholesale Energy Prices – I&C Comparisons across Europe**

The UR has recently proposed to publish geographical benchmark data for the small, medium and large I&C markets, highlighting the energy costs (pence per/kwh) that these firms pay in NI compared to other European countries.

Firmus energy recognises the need for transparency and understands that this information is vital, particularly to large manufacturing plants requiring significant energy resource.

The UR has an overarching responsibility and obligation to grow the NI Gas Network and also to help encourage commercial investment in NI. Large industrial companies assist in reducing the costs of natural gas for the domestic consumer, whilst also providing employment and local economic growth.

The NI Economy has recently lost major firms such as Gallaher's Tobacco and Michelin Tyres and witnessed significant drops in production from Wright Bus and Bombardier. The UR must remain mindful of the potential impact on external investment into NI by publishing these I&C benchmark costs in isolation.

If NI commercial energy costs are to be published in the quarterly transparency reports, it is important that the price per kWh is considered in the context of its market environment and circumstances. Indeed there are many factors to consider, for example:

- Large I&C companies do not avail of a common tariff and are allowed to negotiate their own bespoke contracts at different commodity rates.
- Large I&C's may decide to trade various gas commodity products via their supplier, at their own risk.
- REMM Quarterly data is generally not reflective of annualised data.
- Individual companies have different billing cycles and also contract start and end dates. This can affect the validity of quarterly energy costs reporting.
- The published p/kWh rate would be blended for all 3 NI networks, yet the actual distribution pass through charges are not a postalised cost. This means a significant portion of a company's energy costs (Distribution charges) is also dependant on location and specifically, choice of Licensed Network Area within NI.

If NI commercial energy costs are to be published in the quarterly transparency reports, it is important that this energy price forms only one part of the narrative determining suitability of manufacturing investment in NI. For example, other factors warranting consideration might be;

- a highly-skilled, low cost work force;
- a favourable corporate tax rate compared to Great Britain;
- inexpensive commercial property / manufacturing space; and
- exceptional geographical / transport links to Great Britain, Ireland and EU markets.

## **Strategic Objective 2: Enabling 21<sup>st</sup> Century Networks**

Firmus energy recognises the importance of Network Operators adopting new innovative and cost efficient processes and systems that will assist in the ongoing development of the NI Gas Network and maintenance of its associated assets. Given that the gas network is still in its early stages, especially within the Ten Towns, The West and The East License Areas, it is important that Network Operators adopt any efficiencies and innovative strategies early, in order to optimise potential benefits.

### **Innovation**

The UR has proposed that Innovation Plans be submitted by DNOs as part of their upcoming price controls. Firmus energy supports the adoption of innovative ideas, however it is important that adequate rewards and incentives are put in place to motivate and ensure that innovation plans are appropriately funded. By way of example, any benefits realised by innovation could support the acceleration of domestic switches from oil to natural gas. (See Network Growth, below)

### **Cost Efficiencies**

It is important for the UR to consider how efficiencies, specifically in the natural gas sector, directly relate to their long term strategic objectives. Cost efficiencies must be weighed up against investing in the future, Health and Safety requirements, and decarbonisation / environmental targets. For example, the higher cost of replacing an asset with a more expensive substitution, may need to be considered against;

- the longer lifespan of the asset;
- reduced maintenance and greater structural integrity; leading to
- minimal health and safety risks; and
- a lower carbon footprint attributed to the asset's initial manufacture.

### **Network Growth**

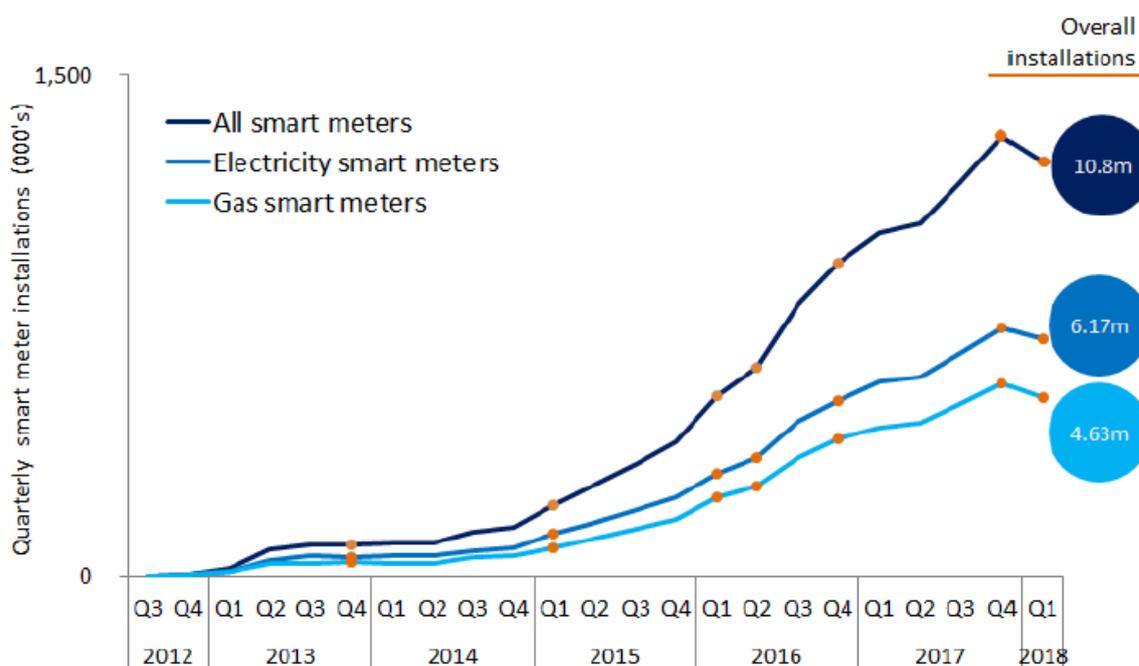
The UR has recognised, as per its Chief Executive's Forward Work Plan presentation on 16<sup>th</sup> January 2019, that a 'Step-Change' i.e. a significant change in attitude or policy, would now be required to move the NI Oil : Gas usage ratio from what it currently is, to the levels of Great Britain. We welcome this acknowledgement from the UR, and would add that to achieve a significant increase in connections to the network, the UR and wider industry will have to secure government support, ensure a clear strategy and also approve substantial investment.

Any Network Growth and Gas Connections strategy implemented by the UR and gas industry cannot be driven solely by lowest cost for end users (i.e. economic payback in isolation). Government policy

and long term objectives such as fuel poverty, vulnerable customers, decarbonisation, etc. must all be factored into the strategy.

### Smart Metering

Since 2012 large energy suppliers have reported installing a total of 10,804,900 smart meters across domestic properties in Great Britain – 4,630,900 of which have been gas smart meters and 6,174,000 have been electricity smart meters.



Given the prevalence of smart meters across Great Britain, firmus energy believes the UR must consider the introduction and roll out of smart meters across NI. The benefits of smart metering technology would not only be realised by gas customers, but by Suppliers and Network Operators too. The relative immaturity of the NI gas networks lends itself to this workstream and we should not necessarily be seeking to follow GB, but rather take the lead in smart meter rollout across NI.

*Note: A recent article in Utility Week (November 2018) highlighted the drop in GB smart meter installations, causing concern that the 2020 deadline to ensure all GB meters are smart meters would not be met. This highlights further how far NI is behind GB in terms of smart metering.*

#### Consumer benefits include;

- allows customers to monitor their gas usage;
- much simpler switching process; and
- more accurate billing as estimates of consumption are not required.

#### Supplier benefits include;

- fewer estimated bills;
- reduced meter reading obligations and associated costs;
- fewer switching issues.

#### DNO benefits include;

- meter reliability (less faults and maintenance call-outs);
- profiles of usage consumption patterns.

### Energy Investment and NI Executive Policy

The UR has a key role to play in terms of energy investment/policy decisions emerging from the Executive and impacting energy Suppliers and Network Operators. The UR must consult with network operators and suppliers and present informed advice to the Executive on the consequences of policy decisions. Moreover, ensuring the lowest price for consumers should no longer be the solitary focus of strategic policy.

## Strategic Objective 3: Enabling Security of Supply and a Low Carbon Future

### Renewable Resources

Firmus energy is committed to exploring and researching the area of renewable gas resources and believes this presents a very exciting opportunity for our industry. It is our opinion that the injection of renewable gas resources into the networks will be a viable option in the near future, bringing with it both environmental and economic benefits. As with other long terms strategies, the UR's, and wider industry's commitment to renewable energy will require significant initial capital investment, from companies such as firmus energy, before consumers realise the future end gains and benefits. As part of the investigation into renewable resources, the UR and wider industry stakeholders will have to consider the obligations of consumers that supplement the network supply through renewable resources (i.e. 'Prosumers'). A regulatory framework and suitable licence modifications will be required to take account of these anticipated innovations, ensuring a basis is formed for appropriate stakeholder interaction and collaboration.

### Decarbonisation

The UR has an opportunity now to advise government and to publish specific key targets in terms of carbon reduction goals and timelines. These should be aligned to any overarching European and Worldwide objectives such as the United Nations Paris Climate Accord 2015 and Europe's commitment to have reduced greenhouse gas emissions to 40% of 1990 levels. There is also the EU Clean Energy Package deliverables and the EU countries binding target of ensuring, by 2030, at least 27% of energy needs come from renewable sources (UK Government's Clean Growth Strategy). The Government's carbon objectives for NI can then be specifically monitored and with clear targets set, energy companies can similarly set their own specific carbon goals within their business. The conversion away from oil to natural gas remains one the most efficient methods to reduce carbon emissions, and as such must remain a key focus for the UR and wider industry.

### Security of Supply

In October 2018 firmus energy successfully completed its Security of Supply River Foyle Crossing project in Derry/Londonderry. This major engineering assignment, which was several years in planning due to the complexity and uniqueness of the works, came at a cost of approximately £3.5m. The pipeline is critical to Security of Supply on our network for current and future customers. Furthermore it reflects the importance placed upon Security of Supply, and longer term strategic objectives, by both the UR and firmus energy.

### **Compressed Natural Gas (CNG) Network Points**

Firmus energy is committed to exploring and researching the area of Compressed Natural Gas Network Points. In line with the UR's Objective 2 : to enable 21<sup>st</sup> Century Networks, firmus energy envisages the introduction of CNG network points as being a significant new element within the NI gas networks and as such deserves structured review and consideration. We believe it should be a key focus for the UR to establish a new regulatory framework that will address the requirements and challenges presented by CNG and the renewable gas industry overall.

### **Conclusion**

Firmus energy is supportive of the UR's Draft Corporate Strategy 2019 – 2024. We believe the key objectives discussed in the document provide a satisfactory level of protection and empowerment to consumers across NI over the next 5 years. Furthermore, we believe the UR has suitably recognised the changing landscape of the energy industry and, as a result, has adopted a strategic position to implement the necessary 'step changes' to ensure the revived growth and development of the NI energy sector. We look forward to our continued engagement with wider industry stakeholders over the next 5 years, assisting the UR in realising its objectives, and achieving our collective goals.