



Price Control for SSE Airtricity Gas Supply (NI) Ltd 2023-2027

Draft Determination for Consultation June 2022

THE CONSUMER COUNCIL RESPONSE

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The Consumer Council response to the Utility Regulator Price Control for SSE Airtricity Gas Supply (NI) Ltd 2023-2027: Draft Determination for Consultation June 2022.

31st August 2022

1. Executive Summary

- 1.1 The 2023-2027 Price Control is an opportunity for the Utility Regulator (UR) to continue to safeguard consumers, and promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland. The interests of consumers must be at the heart of the Final Determination; especially after the record gas tariff increases that consumers in Northern Ireland endured in 2021/2022, leaving many households in vulnerable circumstances, having to choose between eating and heating.
- 1.2 We acknowledge the work carried out by UR and SSE Airtricity Gas Supply (NI) Ltd in delivering this price control draft determination. The main points in our response are:
- It is important the Utility Regulator continues to ensure costs are properly allocated to SSE Airtricity Gas Supply regulated and unregulated gas and electricity businesses;
 - Where costs are adjusted retrospectively, any up-front allowance should reflect, as closely as possible, what the actual spend will be;
 - SSE Airtricity Gas Supply and the Utility Regulator should seek to ensure opportunities for efficiencies are taken in this determination and throughout the lifetime of this control; including by examining best practice in other network areas;
 - The existing 2% margin level for SSE Airtricity Gas Supply is sufficient;
 - The profit margin should be reviewed and tapered when wholesale prices go up, but operating costs remain the same, to prevent excessive profits being made;
 - We would welcome more proactive and transparent customer communications from SSE Airtricity, particularly regarding billing and when increasing prices, and
 - We would encourage SSE Airtricity Gas Supply to continue to donate a percentage of its profits to a fuel bank initiative each year to help those in energy crisis.
- 1.3 As a regulated company, SSE Airtricity Gas Supply must ultimately be accountable to its customers. This accountability must be underpinned by transparency in respect of its operational activities and pricing. Consultation on this draft determination is a welcome step in providing the assurances required to ensure that SSE Airtricity Gas Supply are operating in the interest of Northern Ireland consumers.

2. The Consumer Council

2.1 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. 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.

2.2 Consumer Principles

We use the eight consumer principles, shown in Figure 1, as a framework that asks important questions about service design and delivery, consumer impact and how services should look and feel to the consumer, and that helps assess regulatory decisions from a consumer perspective.



Figure 1: The Consumer Council's Eight Consumer Principles

2.3 The consumer principles also establish a common language that all stakeholders (Government, Regulator, Consumer Advisory Body, and the Company) can use to meaningfully and constructively engage with consumers to develop trust and a better understanding of the value for money a company can provide.

2.4 The Consumer Council welcomes the opportunity to respond to the Utility Regulator (UR) Control for firmus energy (Supply) Ltd 2023-2026: Draft Determination for Consultation, to ensure that the interests and needs of Northern Ireland consumers are represented and protected.

3. Consumer Context

- 3.2 From the 1st July 2022, the typical annual cost of the regulated gas supply tariff in the Greater Belfast and West areas for a typical credit meter and PPM customer is 142% more expensive than last year ¹.
- 3.3 Household incomes in Northern Ireland are under pressure as a result of high inflation with significant increases to food, fuel and home energy costs.
- 3.4 Northern Ireland's lowest earning households' biggest outlay is for energy bills. On average 20% of their weekly basic spending is on housing, water, electricity, gas & other fuels².
- 3.5 Northern Ireland's lowest earning households have only £29 of discretionary income to spend per week (£28.86)².
- 3.6 44% of Northern Ireland consumers have £300 or less to spend after essential outgoings each month. This figure is significantly higher for [C2DEs (49%)], those not working (54%), those with an income of <£20,000 (72%), renters (56%) and those who consider themselves significantly limited by a disability (59%)².
- 3.7 In 2022 home energy was cited as the biggest expenditure worry for 30% of consumers, up from 9% in 2021³.
- 3.8 Finally, 34% (247,000) of households are classified as being in fuel poverty⁴. A significantly higher level of fuel poverty was recorded in households where gas (47%) is the main source of fuel for heating, this equates to approximately 102,000 households that use gas as their main heating source.

¹ The Consumer Council price comparison tables (using a consumption of 12,000kWh and the unit rates of SSE Airtricity)

² Centre for Business and Economics Research, Impact of Covid-19 on household finances in Northern Ireland – Q1 2022, June 2022

'Lowest earning households' definition: Quartiles are income values which divide the population, when ranked by household income, into four equal-sized groups. 'Lowest earning households', also known as Quartile 1, are the bottom 25 per cent of the income distribution.

'Discretionary Income' definition: Discretionary Income = Gross Household Income – Taxes – Cost of basics

³ The Consumer Council Consumer Insight Survey 2022, March 2022.

⁴ The Consumer Council A Review of Fuel Poverty Levels in Northern Ireland Survey 2022, May 2022.

4. Scope and Duration

- 4.1 SSE Airtricity Gas Supply remains the dominant domestic supplier in the Greater Belfast and West areas and the dominant supplier in the small business market segment, therefore the Consumer Council agrees with UR that the price control should remain for End User Category 1 (EUC1) up to 73,200kWh per annum.
- 4.2 The Consumer Council agree that a four-year period is the more appropriate duration for the price controls as it balances the resource and cost implications of carrying out a control with the ability to forecast accurately over the medium term. Therefore, UR should apply the control for the period from; 1 April 2023 to 31 March 2027.

5. The Regulated Tariff and Network Costs

- 5.1 The cost of energy is a primary concern for Northern Ireland consumers, especially those domestic gas customers in the Greater Belfast and West areas who have had to endure four different tariff increases from 1st April 2021, seeing their average annual bill increase from £514 to £1,243.
- 5.2 The Consumer Council supports UR's proposal to maintain the k-factor at a minimal level, through the use of regular tariff reviews and a trigger mechanism to monitor the tariff closely, therefore, minimising the impact of the k-factor on the tariff.
- 5.3 The Consumer Council continues to willingly participate in the formal bi-annual tariff review process, and we fully support the trigger mechanism, which can help mitigate tariff volatility for consumers. However, we are of the opinion that the current 5% trigger should be increased to 10% due to the number of tariff increases (four) experienced in the Greater Belfast and West areas since April 2021 until July 2022. By increasing the trigger percentage, this should reduce the number of tariff reviews in the Greater Belfast and West networks in the event of periods of volatility which we are currently witnessing. By reducing the number of tariff reviews, gas consumers will have more breathing space between reviews and can therefore have more time to adapt to price changes.
- 5.4 The Consumer Council believe there is a distinct lack of consumer understanding around the reason for the many recent gas price increases. For example, consumers lack knowledge of why a tariff increase is necessary; how the tariff increase is calculated; and why gas suppliers cannot absorb these wholesale energy costs when they are forward purchasing gas, rather than passing these increases onto consumers. This lack of knowledge and misinformation is having a detrimental impact on consumer trust with the gas industry, including SSE Airtricity Gas Supply in the Greater Belfast and West areas. We would suggest UR encourages SSE Airtricity Gas Supply to engage more with the media and the local communities they serve to provide further information in respect of pricing so that their customers are better informed in relation to tariff increases.

- 5.5 Given the record high gas wholesale costs and numerous tariff increases in recent months, we fear many domestic (and EUC1) credit meter gas customers in the Greater Belfast and West areas are having to cut back gas consumption and/or do without other essentials to be able to afford other household / business expenditure. These gas customers are being penalised by having to pay a higher rate for their first 2,000 kWh compared to lower rate for each kWh after 2,000 kWh (Around 4p (inc VAT) for domestic tariffs and around 3p for SME Business tariffs). The Consumer Council requests that the UR to review the standing charge element of this two-tiered tariff and review its impact on consumers.
- 5.6 Currently micro gas credit customers must pay for the minimum consumption of 1,678 kWh per year (which is applicable on a pro rata basis across bills), regardless if they consume this amount or not - PPM customers do not have to pay this minimum consumption charge. Since the last tariff increase on the 1st July 2022, these minimum charges for SSE customers have increased by 129% (£132.52) from April 2021, and FES customers in the Ten Towns have also see their minimum consumption charges increased dramatically, 172% (£182.80) for the same period. When the market was originally established there was a certain amount of kWh for minimum consumption reflective of customer use and to cover the supplier fixed costs (billing, meter reads, etc.). However, during the last sixteen months, gas prices have risen significantly and are at an all-time high. Many households are reducing their gas consumption to help pay their bills and these minimum charges will adversely affect those already lower users and potentially those reducing their usage below the minimum consumption charges.
- 5.7 In GB the Ofgem Daily standing charge is capped at 0.27p or £98.55 per year as an allowance to cover the supplier's fixed costs. The Consumer Council would urge UR to consider reviewing the minimum consumption charges that gas customers are subject so to with the intention of removing the charge or ensuring it covers the supplier's fixed costs directly related to minimum consumption.
- 5.8 We recognise network costs are outside the control of SSE Airtricity Gas Supply. Therefore, the Consumer Council supports UR's proposal to set them as a pass-through element of the regulated tariff.

6. Supply Operating Costs

- 6.1 In this section, where the Consumer Council do not comment about specific cost items, we support UR's proposals.
- 6.2 The consultation sets out the apportionment costs of SSE Airtricity Gas Supply's regulated business only and does not provide any explanation for the choice or level of those cost drivers. It is essential the Utility Regulator ensure that customers of the regulated business are not cross-subsidising the unregulated business. The same explanation should be provided when apportioning cost drivers between firmus energy's supply and distribution businesses.

Manpower Costs

Salaries

- 6.3 The Consumer Council agrees with the UR's proposal not to allow any additional Full Time Equivalents (FTE) Customer Service (CS) agents. However, we agree that providing one additional FTE CS trainer could help to support and develop the CS agents. We would welcome if a proportion of this trainer's work was focused on further developing agents' support to vulnerable customers.
- 6.4 The Consumer Council would welcome UR monitoring and analysis of the costs of training and recruitment, and call centre performance, to ensure SSE Airtricity Gas Supply delivers good value for money and satisfactory levels of customer service are achieved in comparison to other regulated suppliers.

Travel and Subsistence

- 6.5 We would welcome assurances that SSE Airtricity Gas Supply 's travel and subsistence costs are allocated fairly and transparently between SSE Airtricity Gas Supply 's distribution and supply businesses, and between SSE Airtricity Gas Supply 's regulated and unregulated customers.

Operations Costs

IT OPEX and CAPEX

- 6.6 The Consumer Council notes the significant uplift in information technology allowances for the SPC23 period compared to SPC20. The Consumer council is concerned that although SSE Airtricity Gas Supply was allowed to invest in a new billing system to replace the old Hi-Affinity billing system in SPC17, this didn't go ahead, and the new system (Gentrack customer and billing management system) didn't get installed during SPC20 either. Given the less than satisfactory customer service levels that consumers experienced with SSE Airtricity Gas Supply during COVID-19, it is incumbent upon UR to ensure that the new billing and customer management system is installed as soon as possible during SPC23 to help make SSE Airtricity Gas Supply's operations and billing processes more efficient and cost effective and help deliver a better consumer experience.
- 6.7 In addition, the Consumer Council would like to see evidence that quantifies that the new billing and customer management system will make SSE Airtricity Gas Supply's operations and billing processes more efficient and cost effective.
- 6.8 The Consumer Council agrees that the £219K of the SPC17 allowance that was spent on unrelated CAPEX projects, be subtracted from the SPC23 IT CAPEX allowance.

Office Costs

- 6.9 With regards to Office Costs, SSE Airtricity Gas Supply operates its regulated supply businesses from the same premises as its distribution and unregulated supply businesses and many costs may be common or jointly incurred. Therefore, it is particularly important that costs are

properly identified and allocated to the relevant business. SSE Airtricity Gas Supply will have an incentive to favour allocation to its regulated business and it is important that UR continues to oversee the cost allocation.

Rates

6.10 The Consumer Council believes that the rates element of the SPC23 should be the pass-through of the Lands and Property Services (LPS) bill.

Professional and Legal Fees

6.11 We believe UR's approach and rationale to Professional and Legal Fees to be fair in principle using the forecast for 2023/24 to be reasonable and used to set fixed allowance across the four years of SPC23 allowance.

Insurance

6.12 UR has not clarified if this insurance covers both the regulated and unregulated SSE Airtricity Gas Supply business and if so, how is the cost to be apportioned between the two? The Consumer Council would also like clarification as to why insurance costs are increasing by 2%.

Network Maintenance

6.13 We note 49% annual average uplift in proposed network maintenance costs for the first three years in SPC23 compared to the actual in 2020, 2021 and the Latest Best Estimate (LBE) for 2022. While we recognise that maintenance requirements are likely to be increasing due to the age of the Network and current inflationary pressures, it is important consumers are provided clarity regarding these increases. We ask UR to explain what has determined these proposed increases in network maintenance costs and confirm that these allowances are as cost reflective as possible.

Customer Engagements

6.14 We agree with UR's assessment that SSE Airtricity Gas Supply's proposal to contact all customers about shifting away from paper to digital communication does not offer value for money at £150K this being deducted from their submitted costs in year one (2023/24).

Billing Costs

Bad Debt

6.15 We need to balance the need to keep bad debt as low as possible with the recognition that more people could get into debt with ever increasing gas prices. The Consumer Council believes that the methodology to set SSE Airtricity Gas Supply's bad debt allowance should be based around the following principles:

- Supporting vulnerable customers;
- Being cost reflective;
- Requiring SSE Airtricity Gas Supply to have processes and systems in place to reduce risk of bad debt;
- Providing an incentive to increase SSE Airtricity Gas Supply's efficiency;

- Reflecting investment in for example the new billing system implementation that may have a positive impact on debt management; and
- Considering the socioeconomic profile of SSE Airtricity Gas Supply’s regulated customers.

6.16 With regards to UR’s proposals in respect of bad debt for SPC23, we agree that the number of people in debt and the value of debt are likely to increase due to record high gas prices, and the likelihood of more tariff increases in the coming months. We agree that providing the supplier with a 0.6% Bad debt allowance for SPC23 is appropriate.

6.17 The Consumer Council’s own analysis of SSE gas consumption customer type shows that regulated bill pay customers account for less than a third (30%) of all the gas that SSE sells. This is shown in Table 2. Given that pay as you go customers cannot fall into debt², we ask UR to re-examine the bad debt weighting to ensure that it is as cost reflective as possible.

6.18 It would be helpful if Table 3, page 18 in UR’s consultation paper showed the bad debt figures split between SSE Airtricity Gas Supply’s regulated and unregulated businesses for each year of the price control. This will provide more clarity about the actual allowance as well as providing a comparison between both businesses.

Table 2. SSE Consumption Analysis by market segment extracted from the 2021 SSE Distribution

REMM submissions:

Consumption (therms) (Volumes in Therms as invoiced to suppliers)	Total 2021	% share of overall consumption
Domestic Prepayment	47,434,727	29%
Domestic Credit and I&C <73,200 kWh / annum	48,391,378	30%
I&C ≥ 73,200 but < 732,000 kWh / annum	19,918,068	12%
I&C ≥ 732,000 but < 2,196,000 kWh / annum	10,868,341	7%
I&C ≥ 2,196,000 kWh / annum	35,962,022	22%
Total	162,574,536	100%

Source: The table above was extracted from the SSE Distribution REMM submissions (excludes the I&C daily metered consumption).

Paypoint Costs incl. PAYG Cards

6.19 At present SSE Airtricity Gas Supply pay as you go (PAYG) customers can only top-up at PayPoint outlets. From the perspective of the PAYG users, it would be a positive development to have a greater choice of options to top-up. If the trial and roll out of the new “smarter” gas meter which will allow gas customers to top-up online proves successful in SPC23, we ask UR

² With the exception of instances of meter interference.

and SSE Airtricity Gas Supply if they have factored in the possible reduction on the use of PayPoint during this price control period.

Meter Reading

6.20 The Consumer Council notes UR's proposals for SSE Airtricity Gas Supply's meter reading allowance. It is our understanding that gas suppliers are responsible for taking meter readings from their customers. However, UR's consultation paper states that SSE Airtricity Gas Supply's meter reading rates "are set" without any explanation or evidence about the methodology used, or how UR has scrutinised or benchmarked the rates with Firmus Energy's and suppliers outside Northern Ireland. We ask UR to provide a detailed analysis on this issue in the final determination.

6.21 We note that SSE Airtricity Gas Supply's website advises customers that it "will endeavour to read your meter at least once a year" and it encourages consumers to provide meter readings, offering a number of easy options³ including an online form⁴. We also note that SSE Airtricity Gas Supply advises and incentivises its customers to provide their own meter reads through discounts and billing advice. We would welcome confirmation as to whether these incentives reduced the number of meter readings that SSE Airtricity Gas Supply has had to undertake for its regulated and unregulated businesses, and if so, if the UR has considered this when setting the SPC23 allowance.

Customer Information Processing and Postage

6.22 The Consumer Council believes that rather than increasing or even staying constant during the price control period, more should be done to encourage customers to move to online and digital methods for receiving customer information and billing, thus reducing communication costs per customer.

Letter of Credit

The Consumer Council notes the significant uplift forecast in relation to credit cost guarantees. It is our assumption that this relates to the increase cost of wholesale gas and current wholesale market risks. However, it is important that consumers are provided a clear explanation as to why those letter of credit costs have increased.

Tracing Costs

6.23 The Consumer Council agree with UR to accept submission costs for SPC23.

Text Alerts

6.24 The Consumer Council agree with UR to use FY21 LBE as a baseline and increase each year in line with customer growth.

³ <https://www.airtricitygasni.com/at-home/help-and-advice/tariffs-and-payment-options/>

⁴ <https://airtricitygasni.com/at-home/my-account/submit-a-meter-reading/>

7. Gas Costs

Energy Balancing

- 7.1. The Consumer Council believes it is important that SSE Airtricity Gas Supply is not incentivised to increase potential risk for consumers by leaving large proportions of gas to be purchased within the month, particularly during times of market uncertainty.
- 7.2. We believe that UR should further consider whether:
 - A full 10% premium is required to fund the extra cost of gas purchased in the month.
 - Whether full pass through of the premium is required up to 40% of the gas requirement, or whether by more effective demand forecasting SSE Airtricity Gas Supply should be able to forecast actual demand with greater accuracy and therefore have an active incentive to purchase a greater proportion of their gas in advance.
- 7.3. We ask the UR to clarify if they have benchmark both these aspects of the energy balancing costs against FSE in the Ten Towns network and other gas suppliers in GB.

8. Margin

- 8.1 We agree with UR's assessment that the regulated retail market conditions in the Greater Belfast and West networks have not changed sufficiently during the years of the SPC20 period. However, as the hedging risk to gas purchases falls almost entirely to consumers, the Consumer Council would still question if the 2% margin level is too high a reward for the risk involved for SPC23.
- 8.2 We believe that the profit margin should be reviewed and tapered to a lower percentage (than 2%) when wholesale prices go up, but operating costs remain the same thus preventing excessive profits being made by SSE Airtricity Gas Supply. This tapered approach would help limit the impact that high energy prices are having on households that are experiencing energy crisis in the Greater Belfast and West networks.
- 8.3 We would also encourage SSE Airtricity Gas Supply to commit to donating a percentage of its profits to a fuel bank initiative each year to help those households in energy crisis.

9. Reconciliation Costs

Inflation

- 9.1 The Consumer Council agrees with UR using the Consumer Price Index (CPI) in SPC23 rather than using the Retail Price Index (RPI) as its measure of inflation. Other regulators such as Ofcom, Ofwat and Ofgem have already moved to using the Consumer Price Index (CPI) in their current regulatory reviews.

Rate of Interest

- 9.2 The Consumer Council support the change from LIBOR (London Inter-Bank Offered Rate) that was used in SPC20 to the Bank of England Base Rate plus 1.5% for SPC23.
- 9.3 The Consumer Council remains committed to working in partnership with UR and the gas industry to develop natural gas and its accessibility, to promote competition and most importantly, to protect the interests of consumers.

10. Contact Information

To discuss our response in more detail, please contact:

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The Consumer Council consents to this response being published.