



Consultation: 2014 Power NI Supply Price Control

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The Consumer Council welcomes the opportunity to respond to this consultation.

The Consumer Council is an independent consumer organisation, working to bring about change to benefit Northern Ireland (NI) consumers. Our aim is to make the consumer voice heard and make it count.

This Power NI Price Control comes at an important time for the regulated electricity market in NI. Competition is developing and switching is increasing steadily. A Price Control is normally about protecting consumers within a monopoly scenario. However, this Price Control is as much concerned with the development of competition as it is with the business costs of the dominant incumbent supplier.

The aim of the Regulator in the current scenario in NI, must be to protect consumers in the transition from a monopoly to a competitive market.

The Consumer Council supports competition so long as it:

- Provides value for money to the consumer;
- Provides better customer service;
- Is available to all classes of consumers, and;
- Provides increased and targeted protection to vulnerable consumers.

To date, competition has delivered tariffs that are currently lower than those in GB and ROI, however there is no guarantee that this will continue. We have also seen some new innovative tariffs and payment methods providing consumers with greater choice. However, we have also seen a sharp increase in the number of electricity complaints received by the Consumer Council, including complaints about marketing practises and the switching process, (see Tables 1 and 2). In addition our research shows that consumers in lower socio-economic groups are not switching as much as those in higher groups¹.

¹ Power to Switch-Consumer Council June 2013.

Table 1

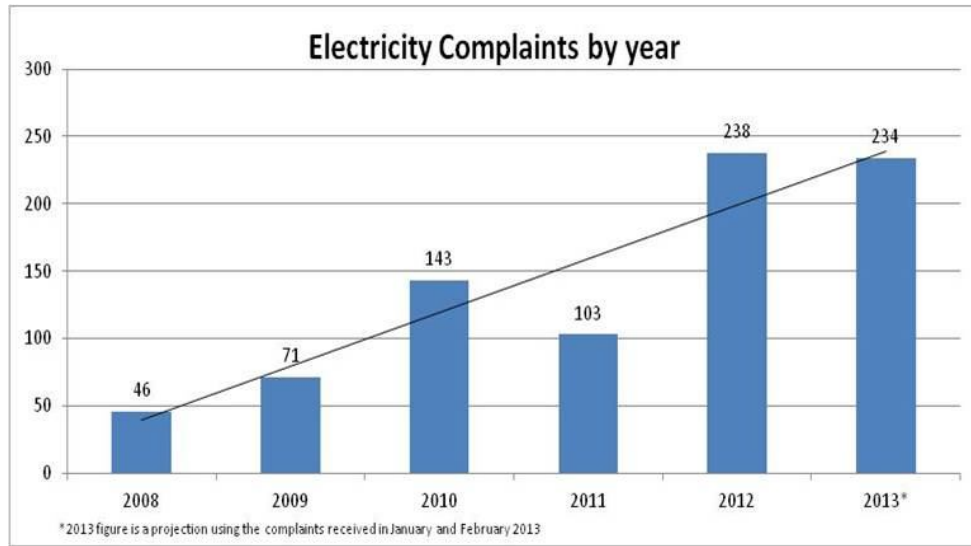
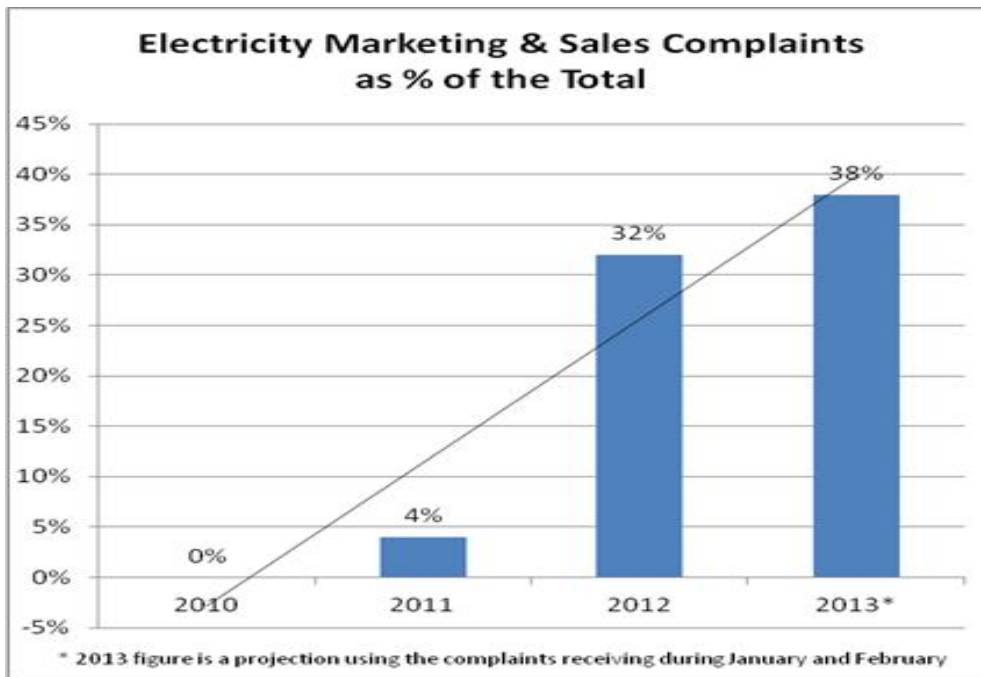


Table 2



It is clear that decisions on this price control will be heavily influenced by an understanding of the electricity market and where it is going in the future. Overall we see that the Regulator recognises this and is making sensible proposals on how to assess this. However, aside from the statistical information on market shares and switching rates there is also a need to understand consumers' experiences and views of the market. To this end we believe that it is important to engage with consumers.

The Price Control is the mechanism that the Regulator uses to control the market power of a dominant business primarily in relation to price but it can also be used to regulate the standard of service provided. Power NI has 83 per cent of the NI electricity market by customer numbers but only 43 per cent by consumption². Power NI therefore has an impact on a large number of consumers, particularly domestic consumers and small business consumers.

We welcome the Regulators commitment to working with the Consumer Council to develop its market monitoring system. In the absence of significant and specific incentives for customer service standards this will be the main method to ensure customers are protected as competition develops. The Consumer Council places a great deal of weight on this commitment and we look forward to working with the Regulator and Power NI.

Question 1: Do respondents agree that where this consultation has an impact on the groups listed, those impacts are likely to be positive in relation to equality of opportunity for energy consumers?

The licence under which Power NI operates requires the company to ensure that it does not discriminate between different groups of consumers. We are satisfied that nothing within the Price Control proposals undermines this requirement.

Question 2: Do respondents consider that the approach needs to be refined in any way to meet the equality provisions? If so, why and how? Please provide supporting information and evidence.

We believe that the Regulator needs to engage with consumers as early as possible to ensure that the Price Control delivers consumers' priorities.

² Utility Regulator- Transparency Report August 2013

Question 3: The UR proposes to retain the Power NI price control for Non-Domestic customers consuming 0-50MWh or less per annum and remove coverage for those consuming 50-100 and 100-150MWh pa. Do respondents' agree with this proposal and if not, please explain your rationale?

In the context of a continuing European wide drive toward competition, we believe that the Regulator's proposals for deregulating the sector consuming 50-150 MWh, providing a road map for deregulation for the sector consuming 0-50 MWh and retaining regulation for domestic consumers are sensible.

Without adequate protection, domestic and small business consumers are the group that is most likely to lose out in a competitive energy market. Without regulation in place energy suppliers can discriminate between different types of consumers. This has been seen in GB, where suppliers target customers they deem to be the most valuable with discounts, whilst giving disregarding those that they believe they can take for granted and will remain with them whatever they charge.

Domestic consumers are more likely to be vulnerable, do not have the resources or market power to negotiate with suppliers and do not always have the means or time to assess the whole market.

Question 4: Do respondents believe a control period of 3 years is appropriate? Please explain your rationale if you do not.

The proposal appears to strike a fair balance between providing certainty for investment whilst allowing for adjustments to be made in a developing competitive market.

Question 5: Do respondents agree with the UR's proposals for the allowed level of Operating Expenditure for Power NI? If respondents disagree they should provide clear evidence and rationale as to their reasons.

Overall we accept the Regulators proposals for OPEX.

However, we would like to understand the benefits to the consumer of the introduction of a new IT/billing system. The Consumer Council is currently in the process of completing a research paper on Power NI's first year billing effect. Power NI has defended strongly its view that their billing system does not have any impact on consumer's bill. However, our preliminary research shows that Power NI customers can suffer financial discrimination as a direct result of the Power NI quarterly billing cycle, due to the following:

- Average electricity quarterly consumption varies throughout the year^[1]
- Consumers have joined Power NI at different times;
- Consumers can switch supplier at any time; and
- Consumers can cancel their contract with Power NI^[2].

As a way of an example, if we use the tariff increases introduced on 1 July 2008 and 1 October 2008, consumers at the start of Power NI's billing cycle could pay on average up to nine per cent more than those at the end of the cycle over a one year period. The opposite could be said if the prices had decreased instead. This is shown in **Table 1**.

Table 1. Quarterly billing analysis Q3 2008 - Q3 2009

	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Total	Diff (%)
Power NI end cycle	£85	£113	£114	£132	£129	£573	N/A
Power NI start cycle	£85	£129	£152	£132	£129	£627	9%

[1] Highest average consumption is recorded in Q1 and Q4, source NIAUR market transparency reports.

[2] For example in the case of rented accommodation.

We would like assurance that the new IT/billing system will remove this problem.

Furthermore, we would seek clarity from the Regulator as to what is included within the term the 'unavoidable costs of competition and its subsequent impact on customer service costs' and how the Regulator has dealt with these in its proposals.

We welcome the application of a 1 per cent efficiency factor for Power NI. Recent Price Controls for Power NI have applied a zero efficiency factor. In the face of increasing competition it is appropriate for Power NI be given an incentive to improve efficiency.

Question 6: Do respondents agree with the UR proposals for the allocation of the proposed allowed level of OPEX for Power NI? If not, respondents are asked to provide clear evidence and rationale as to their reasons.

Yes.

Question 7: Do respondents agree with the proposed margin of 2.2%? If not, the UR would be grateful if you could explain your reasons why and provide supporting evidence.

We recognise that the exercise within the Price Control process that has reviewed the margin has been comprehensive. We also recognise that as competition develops there is a small increase in risk to the Power NI business. We trust that this comprehensive process involving Power NI representing its shareholders and the Regulator protecting consumers has produced a fair and reasonable outcome for consumers.

We would like further detail on the consumption figure that the estimated £3 per year increase to the average electricity bill is worked out from.

Question 8: Do respondents view the apportionment of the St allowance on a 70% fixed: 30% variable basis to be an appropriate calibration for amending the allowed OPEX and Margin as customer numbers increase or decrease?

The only effect that this would appear to have is to marginally reduce the incentive that the apportionment mechanism provides for the company to improve its customer service. In the absence of any explanation for this change we can see no reason for it.

Question 9: Do respondents continue to believe the existing structure and form remains appropriate for the next price control? If not, please explain what you believe the structure and form should be.

Considering the ongoing development of the electricity market in NI, we will take a view on this closer to the time that the next Price Control is due.

For more information please contact Marian Cree- Head of Energy at mcree@consumercouncil.org.uk and on 029 8067 4804



The Consumer Council

Making the consumer voice heard and making it count

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