

## NORTHERN IRELAND ELECTRICITY LTD PRICE DETERMINATION INQUIRY

### Summary of hearing with CCNI held on 08 July 2013

#### Background

1. The Consumer Council Northern Ireland (CCNI) told us that it had a statutory remit to safeguard the interests of consumers in Northern Ireland. CCNI also had specific functions in relation to the Energy Order including making proposals, providing advice and information, representing consumers in all energy matters and reviewing information on consumer issues.
2. CCNI said that it provided information to Ministers, the Utility Regulator in Northern Ireland, licence holders and bodies with a consumer interest. It also published information relating to complaints in the form of an annual report.
3. CCNI expressed concern about the costs of electricity to domestic customers given the cost-of-living issues faced by many consumers, and also in the context of the recent 17.8 per cent increase in electricity charges at the recent tariff review. CCNI also said that the cost of electricity for medium and large industrial and commercial businesses was amongst the highest in Europe. It said network charges accounted for 28per cent of a domestic bill. It noted NIE's proposals would increase domestic electricity bills by 4per cent pa, UR's final determination would increase them by 0.5per cent pa compared to the provisional determination which cut them by 2.85per cent pa. It was concerned about the processes by which UR had made substantial concessions to NIE following the provisional determination, for example in relation to capex allowances, pensions and rate of return.
4. CCNI stated that it was absolutely committed to gaining consumer confidence in the regulatory system and framework in Northern Ireland. CCNI believed that there was not a confident or robust regulatory framework in place and wanted to see a better balance between NIE and consumers brought about. It expressed concern about the significant differences between UR and NIE on what capex was seen as necessary, where it said it did not have sufficient evidence to have a sense of which position was correct. It queried to what extent consumers should pay for any failure of the RP5 process to evidence required investment.

#### Consumer research

5. We were told that CCNI's consumer research in relation to energy had shown that for nearly 70per cent of consumers the top priority was price and it was the second priority for 20per cent of consumers. For 10per cent of consumers reliability of supply was the top priority and for 52per cent of consumers it was the second priority. 7per cent said that producing energy from renewable sources was their top priority and for 18 per cent it was the second priority. We were also told that CCNI's research indicated that an increasing number of consumers were willing to pay more for their energy in order to increase the use of renewables (up from 41per cent in 2009 to 54per cent in 2010).
6. CCNI stated that electricity supplies should be reliable. While NIE had reacted well to the severe weather incidents in recent years, there were questions about the network given that many customers had been cut off. CCNI were encouraging use of a metric to look at worst affected customers.

## **Regulatory process**

7. CCNI had concerns about the way that the regulatory process has allowed NIE to believe that they were not required to provide sufficient robust and transparent information to support its submission under RP5, and this was reflected in their concerns about the RP5 process and outcome.
8. CCNI told us that there was a lack of consumer engagement in the regulatory process and it (the CCNI) had not had as much of an informed role as they would have liked. CCNI said it would like to have been involved at a level where it could contribute more effectively such as at the early stages of the planning between draft and final determination, but recognised that UR had the prime responsibility. CCNI was not sure that UR fully understood the role that CCNI could play throughout the RP5 process in influencing its outcomes for consumers.
9. CCNI expressed deep concern about the differences between UR's draft determination and the final RP5 determination. CCNI had not had a briefing from the Utility Regulator which provided empirical evidence to justify the changes in NIE's favour between draft and final determination. CCNI pointed out that every cost NIE were allowed to recover from customers had increased in the final determination, including large increases in capital allowances and the 162per cent increase in pension allowance. CCNI was particularly concerned that the rate of return had also increased.
10. CCNI had concerns regarding the apparent capitalisation issue which the Utility Regulator appeared to have identified during the RP5 process, in that it had sought to recover monies but had not taken measures to prevent any recurrence of this type of issue.
11. CCNI were concerned that the escalating cost of Northern Ireland's second North South Interconnector, the cost of repairing current faults with the Moyle interconnector, and an issue in relation to the closing of generation capacity at Ballylongford and Kilroot to meet the EU Emissions Directive from 2016 had not been taken fully into account of in the price controls for RP4 and 5. It also noted the potential cost of moving to increased use of renewable energy sources to meet the 40per cent target.
12. CCNI believed there were areas of inconsistency and unpredictability in the industry. CCNI told us it had issues with the whole regulatory model in that it focuses too heavily on the economic side and needs to give more attention to consumers.
13. CCNI were looking to the CC to produce a robust evidence based determination which would be understood and supported by consumers. CCNI also hoped that the CC would ensure that going forward there was a more robust regulatory system.

## **Transparency of information/ Use of a Reporter**

14. CCNI said that there was a lack of transparency in the energy market and that included NIE. It was concerned on how UR could properly regulate NIE in the absence of the necessary information, and whether this was a potential failure of regulatory process. This lack of transparency meant CCNI could not re-assure consumers that the price they were being asked to pay for energy was a fair one. CCNI were keen for NIE to improve their asset management and in that regard felt that compliance with PAS55 would be very helpful.

15. CCNI believed that an industry monitoring Reporter being appointed to NIE could work well ensuring that all the information needed would be put in the public domain.
16. CCNI said that it was not aware of how that lack of transparency could be solved in any other way but was conscious that a Reporter being appointed worked well in other industries (eg in water in Northern Ireland). CCNI said that the Reporter would have to be accepted willingly by NIE.
17. CCNI stated that it would like to receive regular updates from the Reporter as well as being granted access to any information in a manner that would make it understandable to them and the consumer. The information must also be made available to other relevant stakeholders.
18. CCNI said that it did not see the role of the Reporter being detrimental to NIE's business plan. CCNI said that the role of a Reporter was definitely something that should be explored but it did not expect the role to be a panacea that would cover everything.
19. CCNI said that it had, for a number of years, asked the regulator for accredited standards to be built into the regulatory model across a number of energy areas, but none of these requests had been granted.
20. CCNI told us that, as an alternative to a Reporter being introduced, an obligation on companies to provide certain information in a requested format would be very useful for them as they could then comment knowledgeably on behalf of the customer.
21. CCNI said it would be happy if a Reporter worked solely in conjunction with the Utility Regulator and that it (UR) would filter the information received to the relevant stakeholders in a manner that would not break any confidentiality clauses.

## **NIE**

22. CCNI told us that it had a good working relationship with NIE and considered them to be proactive in emergency situations. CCNI believed that NIE were good at addressing consumer complaints but on occasions CCNI feared that NIE put the interests of shareholder ahead of consumers.
23. CCNI said that NIE had been exceptional in terms of managing power cuts and other problems arising from adverse weather conditions. In this regard they were more proactive than other utility companies, with good communications.
24. However, in a recent and ongoing issue regarding guaranteed standard payments for customers off supply during severe weather NIE had not been pro active and were not providing a good customer service to a group of circa 300 customers.

## **Relationship with the utility regulator**

25. CCNI said that it had communications with the UR that were strategic at operational and management levels. CCNI spent a great deal of time sharing information and views on issues with UR and that communication was proactive during the RP5 process. However, CCNI expressed concern that it did not have all the evidence that it needed to make a meaningful comment on the price control. CCNI told us there was an inconsistency by UR in terms of making effective use of the regulatory tools provided.

26. CCNI expressed concern that the UR regulatory model was not sufficiently focussed on the consumer. CCNI said there had been many examples of where it had worked well with UR . However, CCNI also felt that there is a perception within the energy industry that the Ur is unpredictable and inconsistent.

### **Fuel poverty**

27. The latest figures indicated that 42per cent of households in Northern Ireland were in fuel poverty compared to 15per cent in England, 25per cent in Wales and 29per cent in Scotland.

28. A key reason for high fuel poverty in Northern Ireland was that some 68per cent (rising to 82per cent in rural areas) of households used home heating oil to heat their homes. CCNI research indicated that on average it cost consumers £657 per year more to heat their homes using home heating oil compared to using natural gas. CCNI said that many consumers in Northern Ireland could not switch to gas even if they wanted to because it was not available.

29. CCNI believed fuel poverty to be a shared responsibility and not down to one utility company or provider. CCNI said that because fuel poverty was so high, it was driven more to securing the fairest price for consumers.

30. CCNI told us that because there were so many people in fuel poverty in Northern Ireland a social tariff to subsidise people in fuel poverty may not work, because there were many people who were only just beyond the tipping point for falling into fuel poverty.