Response to the UR Price Control for NI’s Gas Distribution Networks GD17

May 2016
1 Introduction

1.1 The Consumer Council is a non-departmental public body (NDPB) established through the General Consumer Council (NI) Order 1984. Our principal statutory duty is to promote and safeguard the interests of consumers in Northern Ireland (NI).

1.2 The Consumer Council welcomes the opportunity to respond to the Utility Regulator (UR) Draft Determination (DD) on the Price Control for NI’s Gas Distribution Networks GD17.

1.3 We acknowledge the complexity of this price control process given the number of Gas Distribution Networks (GDN) involved and the varying stages of maturity. We welcome the detailed information and analysis the UR has provided and the stakeholder engagement undertaken.

2 Executive Summary

2.1 The Consumer Council supports the promotion and ongoing development of the natural gas network in NI. Natural gas offers consumers a choice of fuel that has been cheaper than oil for a sustained period of time, provides consumer protection through its regulatory framework, is cleaner than other fossil fuels and provides payment methods that help consumers manage their spending on energy.

2.2 The GD17 Price Control is an opportunity for UR to continue to safeguard consumers and promote the development and maintenance of an efficient, economic and co-ordinated gas industry in NI. The interests of consumers must be at the heart of the Final Determination.

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1 Over the last 5 years, home heating oil has been on average 7.22% more expensive than natural gas. www.phoenixnaturalgas.com/why-natural-gas/gas-vs-oil/.
2.3 The GD 17 Price Control can benefit consumers by:

- Ensuring that the company delivers value for money for consumers;
- Increasing the take up of gas;
- Ensuring that there is sufficient investment to maintain a safe and resilient network;
- Balancing equitably the financial risks in the business between consumers and the company; and
- Creating an equitable balance of both the benefits and costs of investment between current and future gas users.

2.4 The Consumer Council welcomes UR’s DD as we believe that it broadly delivers the benefits to consumers stated above. In particular it delivers considerable reductions immediately on tariffs. The effect to existing domestic gas customers is to reduce the typical Firmus Energy (FE) licence area bill by £46 per year and in the Phoenix Natural Gas (PNG) licence area by £15 per year compared to the GD14 Final Determination. In the case of Scotia Gas Networks (SGN) the opening tariff will be 14% lower than that in the SGN submission.

2.5 In order to prepare a response to this important series of Price Controls we asked Reckon LLP to analyse the DD from a consumer perspective. A copy of its report is submitted alongside this response at Annex 1 and 2.

2.6 The report by Reckon highlights some issues regarding the sustainability and potential costs to future consumers of the DD if forecasts of volume growth do not materialise. We would ask the UR to give consideration to this report as it develops its Final Determination and subsequent reviews of the industry.
3 Consumer Context

3.1 Despite the welcome drop in domestic energy prices since 2015, fuel poverty in NI remains at the highest level in the UK\(^2\). Consumer Council research\(^3\) in October 2015 showed home energy prices remain the biggest concern for the majority (33%) of consumers.

3.2 Research also highlights that disposable income levels in NI are nearly half that of the UK average\(^4\). Furthermore the report also found that average salaries in NI are lower, at £14,645 compared to £17,965, than in the UK as a whole\(^5\). NI also had the highest percentage of workers on or below the minimum wage at 10%.

4 What natural gas can do for NI consumers

4.1 The Consumer Council supports the extension and infill of the natural gas network across NI, where it is financially viable to do so. Natural gas offers a clear range of benefits:

- The cost of oil is volatile compared to natural gas and on average over the last five years natural gas has been 7.2% cheaper than oil;
- It is a regulated industry and offers protection for vulnerable consumers through Codes of Practice;
- Due to a variety of payment methods such as prepayment meters, low income consumers are less likely to self disconnect;
- Natural gas offers constant availability whereas oil requires delivery;
- Modern natural gas boilers provide high levels of energy efficiency; and

\(^2\) Annual Fuel Poverty Statistics Report, DECC, 2015 show that 42% of households in NI are experiencing fuel poverty.
\(^3\) MillwardBrown Ulster: Consumer Council NI Consumer Outlook Tracking - October 2015
\(^4\) Asda Income Tracker, Centre for Economics and Business Research, January 2016
• Natural gas is the most efficient and lowest carbon producer of the fossil fuels and can provide a stepping stone to a fossil free energy future. The Consumer Council acknowledges and supports the aim of achieving a carbon free renewable energy industry in NI.

4.2 The most recent figures published\textsuperscript{6} indicate that home heating oil remains the most used heating source for homes in NI, with 68% of households using it as their primary heating source, compared to only 7% in GB.

4.3 Home heating oil volatility has seen prices for consumers peak at £329 for 500 litres in March 2012 and fall as low as £125 for 500 litres in January 2016\textsuperscript{7}. The recent low prices are most welcome, especially for those with no alternative fuel choice and those experiencing fuel poverty. However, this clear volatility in cost is a concern compared to natural gas. Consumers want budget certainty.

4.4 Consumers that have converted to the gas network have expressed overall satisfaction with their experience of natural gas and in our 2012 survey, expressed real enthusiasm for it\textsuperscript{8}.

5 Long Term (future consumers)

5.1 The GD17 DD contains a number of proposals with potential cost implications for future consumers. In the Final Determination we would respectfully request that there is greater clarity around the allocation of risks between consumers and GDNs, and the allocation of costs between current and future gas consumers.

\textsuperscript{6} House Conditions Survey, NI Housing Executive, 2011.
\textsuperscript{7} Consumer Council weekly Home Heating Oil Survey.
\textsuperscript{8} Customer’s Experience of Natural Gas in NI – Consumer Council June 2012.
Form of control for FE

5.2 The Consumer Council acknowledges UR’s minded decision to move FE to a total revenue cap form price control. We recognise that a move away from a price cap is common regulatory practice when gas distribution companies reach a certain level of maturity. In the NI context the move will allow FE and PNG to be more comparable in terms of form of control.

5.3 However, with a revenue cap price control consumers in the future carry the risk of paying higher prices if volume or connections do not increase as forecast. This risk is heightened because of the possibility of a lower uptake of gas than expected during the GD17 period, due to the removal of the inherent incentive to increase volumes and customer numbers that a price cap price control provides. Further pressure would be applied if oil continues to remain lower than gas and other barriers to gas conversion highlighted elsewhere in our response are not addressed.

5.4 The situation could be even worse because of FE’s disproportionately high reliance on large gas I&C customers - 60% compared to PNG’s 23%, as shown in Chart 1. If any more of these large gas users were to stop burning gas, as has been seen with the recent closure of JTI and the proposed closure of Michelin, domestic gas consumers would be more vulnerable to price hikes under a total revenue cap price control.
Chart 1. Consumption by Customer Type Comparison (% of total consumption)


5.5 Therefore we would ask that mitigation measures are put in place for GD17 to counteract the potential risks that the loss of large I&C customers represents.

5.6 We would like to draw attention to proposals Reckon has made to help address some of the risks to consumers from a move to a revenue cap form of price control. These are outlined in points 2.a, 6.a and 7 to 11 within Annex 2 of this submission.

5.7 We would respectfully ask UR to address these points within the final Determination as this will have a material effect on both current and future consumers in the FE network area.

Treatment of under-recoveries of revenue accumulated by FE

5.8 The Consumer Council recognises that the inclusion of an under-recovery mechanism in FE’s licence was aimed at supporting the uptake of gas at an early and critical stage of the network development.
5.9 We are concerned that as UR’s DD sets out, FE appears to have benefited at the expense of consumers from the inclusion of under recoveries in its licence whereby:

- It received a 7.5% rate of return on its under recovery. A considerably higher return than the actual costs of capital; and
- Its decision to under recover has contributed to securing its volume target outperformance incentives.

5.10 This has overall been detrimental to gas consumers in the FE Network Area who face a £13m bill for the under recovery - £3m under recovery and £10.3m of interest due to the 7.5% rate of return. Therefore we welcome and support UR’s proposals to:

- Amend the FE licence, in particular conditions 4.2.17 and 4.10.4; and
- Reduce the rate of return on the FE under recovery from 2017 by applying a rate of LIBOR +2%.

In principle we agree with UR’s proposal at 11.81.a to keep the FE historic under recoveries outside the Total Regulatory Value. While this might cause upward pressure on gas prices until 2019, the overall reduction in gas distribution charges set out in UR’s DD provides an opportunity to do without so without noticeable impact on consumers.

5.11 However, we would respectfully ask UR within the final Determination to quantify the financial impact these proposals would have on consumers up to 2019. We note that this information is provided for option 11.81.b and it is essential to provide an evidence based opinion.

5.12 We note the absence of any proposals or consideration by UR on whether and how part of the 7.5% interest element of FE’s under recovery could be transferred to the company. On this point we acknowledge FE’s licence sets
out the right of the company to recover any under recoveries. However, given UR’s statutory responsibility to protect the interests of consumers, we believe this is a possibility that ought to be considered as part of the GD17 Final Determination.

5.13 Clearing the accumulated under recovery of £13 million over three years would add over £4.3 million a year to charges (on top of allowed revenues) up to 2019. This would increase FE’s allowed revenue (and prices) in each of these years significantly compared to the headline numbers reported in the DD.

5.14 Therefore we would ask UR to consider whether this is a fair distribution of risk and reward between consumers and FE. From a consumer perspective transferring part of the under recovery to the company has two significant benefits:

- Minimising the financial impact of FE’s historic under recovery on consumers; and
- It would act as an additional deterrent to GDNs from misusing the under recovery mechanism in the future.

5.15 We believe it is important also to introduce additional safeguards that provide a fairer share of financial risks associated with under recoveries between investors and consumers. We propose that UR considers introducing an efficiency test for assessing any future under recovery. Details of this test are provided in Annex 2. It would work as follows:

- Any GDN that wants to charge future consumers for past under recovery would have to justify that the deviation from cost-reflectivity and the profiling adjustment that this implies are part of an efficient scheme to manage take-up, and that the scheme operates in the interest of consumers; and
• Insofar as the company cannot justify the under recovery, then the under-recovery should be seen as a historical failure to collect revenues that could efficiently have been collected. In those cases it is legitimate for that cost to be borne by GDNs, not future consumers.

The Profile Adjustment Mechanism

5.16 The Consumer Council notes UR proposals in relation to the profile adjustment. We recognise UR’s assessment that the current arrangements may not be consistent with the standard regulatory model in the UK.

5.17 However, the removal of the profile adjustment could have the following negative impacts on consumers and the gas industry in NI based on the evidence contained in UR’s GD17 DD:

• An immediate increase in domestic customer tariffs of 4% and 6% for FE and PNG respectively; and
• Higher forecasted gas prices until 2029-2030.

5.18 The evidence provided shows the removal of the Profile Adjustment Mechanism would cause a detriment to consumers in NI. Therefore the Consumer Council strongly opposes its removal. We ask UR to postpone any decision on the profile adjustment at least until the next price control.

5.19 Our concern about the Profile Adjustment Mechanism is that if volumes of gas sales fail to attain the current forecast, future consumers will experience price rises. We are given some comfort on this by the evidence presented in the GD17 DD that even at zero volume growth the price increase would not exceed between 1% and 2%.

5.20 A safeguard to protect future consumers is to require the GDNs and UR to monitor volume sales closely. This issue should therefore be kept closely
under review and adjustments made in future Price Control reviews if necessary.

The Extension of the Forecasting Horizon for FE from 2035 to 2045

5.21 From a consumer perspective we appreciate that extending FE’s forecasting horizon would have a downward impact on gas distribution charges for the GD17 period and until 2035.

5.22 However, we are deeply concerned about UR’s statement in point 11.94 of the DD paper that “customers after 2035 will be much worse off” and the fact that this financial detriment is not quantified. We believe it is important that the GD17 FD strikes a fair balance between the interests of current and future gas consumers, provides clear evidence to quantify this statement and provide estimates of the financial impact to consumer’s post 2035.

5.23 This is becoming an increasingly important issue given the long term risks associated with the still low uptake of gas among domestic consumers in the Ten Towns licence area, the reliance on a small number of large I&C customers and the need for increasing consumer trust in the gas industry. Consumers remain concerned that once they connect to gas, prices will be eventually “hiked up”.

5.24 We have commented elsewhere on other mechanisms that UR already has in place transferring GDNs’ revenue from current customers to future ones. These include the profile adjustment and in the case of FE the historic use of under recoveries. Given the reductions in gas distribution charges that those mechanisms provide for current gas consumers, we believe there is an argument to retain FE’s current 30 year forecasting horizon. However, as stated already, in the absence of this information we cannot assess the impact this proposal would have on consumers throughout the period in question and therefore cannot take a firm position on it. We would
respectfully ask that UR remedies this data shortfall and provides a clear evidence based decision in its GD Final Determination.

6 Issues specific to the GD17 period (current consumers)

6.1 There are a number of issues contained within the GD17 DD that are specific to the GD17 period. We comment on this within this section of our submission.

Rate of return

6.2 The Consumer Council appreciates the level of detail provided in the DD for each element of the rate of return. We recognise also UR efforts to ensure robust calculations by procuring additional analysis as per Annex 7, and we welcome UR’s transparency in submitting its calculations to peer review by the UK Regulators Network. We believe UR has conducted a thorough review of the rate of return.

6.3 However, working with Reckon we note that UR has provisionally applied an Asset Beta of 0.40 which sits at the highest point of the range of Asset Betas deemed appropriate for comparable low risk GB network utilities. The UR makes a strong argument that neither PNG nor FE are inherently more risky businesses than those used in the GB utilities Asset Beta range. Therefore on the basis of this rationale we would have expected to see at most the middle of the range (0.35) used.

Treatment of the cost of debt for FE and PNG

6.4 The Consumer Council recognises PNG’s need to refinance in 2017, and FE in 2019. This creates uncertainty about their actual costs of debt for GD17. This
is an important issue for consumers as any over estimation of GDNs’ actual cost of debt could result in excess revenue for the companies for parts of the GD17 period.

6.5 We welcome the approach taken by the UR. This has been innovative and transparent. The UR approach aims to bring certainty to revenue streams and reduce the financial risk to consumers.

6.6 We see the benefit of UR’s proposal to allow both GDNs to pass their actual costs of debt into their allowed revenue when these are known. However, we share UR’s concerns that such a process in isolation does not protect consumers from the effects of under estimating GDNs’ future interest payments.

6.7 Of the four options, the Consumer Council supports UR’s preferred option 3 – target cost and pain/gain sharing. This option has the potential to deliver on the principles of certainty and reduction of risk and cost to consumers. It also aligns with the GDNs’ borrowing arrangements. We will observe with interest how the actual mechanism to match GDNs’ allowed costs of debt and actual borrowing costs works in practice.

6.8 Regarding the proposed 80:20 pain/gain adjustment mechanisms, we agree it provides GDNs with some incentive to secure debt at the lowest possible cost. This is particularly relevant to the GD17 period as both PNG and FE will be arranging refinance. The current historically low interest rates present GDNs with a unique opportunity to lock up their cost of debt at low levels. The Consumer Council would strongly request GDNs to ensure this is the case.

6.9 In addition to the above we would like to draw attention to the proposal made by Reckon as per points 2.e, 6.c and 17 to 19 in Annex 2 of our submission. Reckon suggests reversing the proposal to pass-through part of
the cost of debt, and instead using Ofgem datasets to index the cost of debt for FE and PNG.

6.10 We ask UR to fully consider whether such proposals would be a valid and viable alternative to those set out in Annex 7 of its DD paper as we believe they may ultimately be of benefit to consumers in NI.

**Connection Incentive**

6.11 The connection incentive was never intended to be a long term allowance and with this in mind, both PNG12 and GD14 proposed reducing the incentive allowance by 50% from 2017. It is therefore reasonable to expect GDNs to have implemented strategic measures to adequately manage this proposed reduction.

6.12 The Consumer Council is concerned that despite giving significant notice of this proposed reduction, UR has reviewed and subsequently suggested moving away from the proposed 50% reduction and allowing a glide path from £573 at present to £420 in 2022.

6.13 The Consumer Council broadly supports a form of incentive in order to maximise the potential for connection to the natural gas network if it can be shown to be necessary and effective. However under the current system, we can see no requirement for the GDN to demonstrate that the connections allowance it receives has actually contributed to achieving a connection. The only yardstick used is the performance against set targets of properties to be connected. We are concerned that without this transparency consumers may be paying a higher price than necessary and ultimately not receiving value for money from this incentive.
6.14 It is important for both companies and the UR to fully review the market conditions together to ascertain what level of connections allowance is needed to achieve the connections target. If this exercise is conducted independently by the GDN, there is an incentive for the company to emphasise the barriers in the market to justify a higher level of allowance. For example, throughout 2015, the price of home heating oil was below that of gas and we recognise that this provides a real challenge to GDNs to make new connections. However, a balance needs to be struck as energy prices are volatile and since January 2016 the price gap between oil and gas has began to narrow.

6.15 It is also important that connections targets and the level of connections allowance are fair and challenging. In previous years GDNs have in the final analysis comfortably exceeded connections targets. However, if we look at the connections targets proposed for PNG in GD17 they appear to be based on a 2016 forecast that is well below the outturn for the previous four years. At this point in time we can see no firm evidence of what UR’s GD17 targets are based on and we would respectfully ask that UR provides transparent detail in this regard. Ultimately the consumer needs to be assured of the validity of the target and the value for money of the proposed incentive which sets out to achieve this.

6.16 Furthermore, as far as we can see there is no requirement on the companies to show how the connections allowance is actually spent. Consumers therefore cannot see a direct correlation between the connections allowance and connections made. We would not expect the UR to micro-manage a company and instruct it in detail about how the allowance is spent. However, we believe there is an issue of trust and transparency in this regard and would argue consumers are paying the connections allowance in their bills and are entitled to
know that the money is being used for activity that creates new connections.

6.17 The cost of converting to natural gas is a significant barrier for consumers. Using the connection incentive to help reduce this cost for consumers would undoubtedly help them and achieve the goal of maximising connections.

6.18 As the current market is very dynamic with the relatively low cost of home heating oil, we believe an annual “light touch” review would be appropriate. This will ensure GD17 connection targets reflect market conditions and consumers are not paying over and above for a connection incentive.

The inclusion of a “collar” in the connections incentive mechanism

6.19 As previously set out, the Consumer Council believes that the maximisation of connections within existing infill areas is a key priority for GD17.

6.20 We support the concept of a connection allowance to incentivise the connection of owner occupied (OO) properties. We also welcome the inclusion of a risk-reward mechanism whereby GDNs would receive a 10% incentive for each connection above a set threshold, and a progressively lower allowance per property if they fail to meet their connection targets.

6.21 We see these incentives as key elements of this price control to help maximise the number of OO properties connected. However, we are not convinced by the inclusion of a 50% cap on the maximum reduction of the allowance that UR proposes. We believe that the reduction of the connection allowance should be allowed to drop below 50% if the GDNs fail to meet the relevant targets. In our view by removing the collar UR would be ensuring
that GDNs have sufficient incentive to connect as many OO properties as possible even when the maximisation targets are not met.

**Economic Allowance**

6.22 The Consumer Council recognises the potential for variance when assessing fair and reasonable allowances for GDNs.

6.23 The Consumer Council agrees in principle that overall, gas mains should only be laid where there is a reasonable prospect that the initial outlay cost will be paid back by consumers connecting and burning gas within the useful economic period. We understand that GDNs strive to extend the gas mains network as widely as possible however we believe a balance between availability and cost must be achieved.

6.24 The UR has referenced the role of an economic assessment as being important in delivering a sustainable long term industry, whilst recognising a degree of judgement is required within GDN network areas to ensure that the overall consumer base benefits. That is to say that the benefits of an individual economically positive project should be used to potentially counterbalance an economically negative project and therefore in doing so, ensuring that gas is brought to as many consumers as possible. The Consumer Council recognises this approach as fair and reasonable for both GDNs and consumers.

6.25 We also fully support the necessary application of a separate economic assessment for consideration of the property passed determinations for SGN in the West and PNG in East Down.

6.26 The Consumer Council welcomes the application of a capped retrospective mechanism to adjust for the actual numbers and length
of properties passed to ensure consumers are not overpaying for the benefits received. This provides consumer protection by removing the risk of estimated lengths and focuses GDNs on the delivery of development within the parameters set out in GD17.

**Customer Service / Ongoing Consumer Engagement**

6.27 Customer service delivery is at the heart of our work and we know through our complaints handling role the detrimental impact poor customer service has on consumers and their confidence in the overall industry. It is therefore imperative that when promoting natural gas, customer service is at the top of the GDN’s priorities as it builds trust and a perception of value for money.

6.28 We welcome the customer service development objective requiring delivery of new customer service metrics and customer satisfaction surveys as an output of GD17. Identifying and addressing customer service issues when they arise should already be part of all GDN business models and ultimately it is a common sense approach to business.

6.29 The Consumer Council is pleased that the UR has a focussed timetable of delivery using its experience of development work across the water and electricity sectors. Excellence in customer service can only be achieved through shared learning and transparency therefore we would hope the GDNs embrace the UR’s proposals:

- New consumer metrics and customer satisfaction survey to be trialled in Year 2 of GD17 or 2018;
• Introduction and incorporation of the above new measures within a revised Regulatory Instructions and Guidance pack; so that
• Performance in 2019 can be reported going forward in UR’s Annual/Cost Reporting publication.

6.30 The Consumer Council would welcome the opportunity to work with the UR, GDNs and stakeholders to examine the criteria outlined in the DD and deliver an improved customer service strategy through the price control and beyond. Similar customer satisfaction measures that are being implemented for NI Water open up the possibility for developing metrics that allow comparability across all regulated companies in energy and water.

6.31 We welcome the proposal for future incentivised mechanisms for specific elements of the customer service experience in future price controls, arising from improved performance monitoring.

Benchmarking

6.32 The Consumer Council welcomes the benchmarking exercise UR has undertaken in GD17. The Consumer Council has witnessed the clear advantages and improvements brought to the water sector in NI through benchmarking and comparative regulation.

6.33 The Regulator’s success at benchmarking within the local water industry gives the Consumer Council confidence that it can bring similar benefits to the natural gas industry. As such we accept UR’s view that its preferred Composite Scale Variable (CSV) model is appropriate. We note the UR has obtained an assessment of 11
models from Deloitte and has interpreted results from its two preferred models, namely Model 3 & Model 5.

6.34 UR has outlined its position that both models have advantages and disadvantages; however Model 5 is more sophisticated as it takes NI’s gas network quality into consideration. We therefore believe that Model 5 is most appropriate to deliver the best benchmarking results.

6.35 Whilst the Consumer Council strongly supports wage parity for NI employees compared to the rest of the UK, we accept and understand the rationale applied by UR regarding a regional wage adjustment. We are conscious of the variance between average NI wages against the UK average. NI has some of the lowest wages of any UK region including the highest percentage of workers on or below the minimum wage at 10%.

SGN – Request for additional funding

6.36 We agree with the UR that the success of SGN’s Gas to the West application was heavily weighted towards the figures submitted in its submission. Any changes to the figures set out within SGN’s Gas to the West submission have the possibility of risking the integrity of the process.

6.37 We note the view of UR that SGN may not have correctly identified the appropriate opex figure from its Gas to the West application compared to its GD17 business plan submission. If this is the case it is a mistake which will most likely have financial implications. However, as this is within SGN’s control, the Consumer Council is strong in its view that consumers should not have to bear the cost. Any proposals other than the minor adjustments outlined by UR in GD17 would be unacceptable.
Fuel poverty

6.38 The Consumer Council’s response to GD14 contained a strong focus on Fuel Poverty which reflected soaring energy prices at the time. It is therefore welcome that GD17 is being consulted on with consumers benefitting from significantly lower energy costs.

6.39 The Consumer Council supports initiatives that help alleviate fuel poverty in NI. We recognise and support key aspects of GD17 that we believe can deliver a high quality service at a reduced cost to existing and future gas consumers. Ideally all accessible NI consumers would have the option of connecting to the natural gas network and we welcome expansion into East Down and the West.

6.40 We would encourage innovation from GDNs, stakeholders and government to create opportunities to make natural gas available to households and suggest that UR is open and supportive of such innovation. We note that in the SGN Business Plan submission for Gas to the West it included a proposal for a £50 incentive payment to target fuel poor households. We would like to see such proposals explored by the UR, to see if they could help reduce fuel poverty without reducing the overall benefits of the Price Control to the wider consumer base.

6.41 In March 2016 the Consumer Council responded to the UR’s consultation on its intention to impose a financial penalty on Gas Networks Ireland (UK) Ltd. Rather than imposing the fine of £0.5m which is returned directly to HMS Treasury, the Consumer Council sought the option of a voluntary financial contribution in lieu of a financial penalty that could be used to benefit NI customers.
6.42 Similarly, in 2015 Ofgem imposed a financial penalty of £5m on the power company Drax. It also ordered Drax to pay £20m in consumer redress to National Energy Action, ensuring GB consumers benefitted. In our view a similar approach could have been used to potentially help fuel poor consumers in NI. We would strongly advocate this form of approach should similar circumstances arise in the future. This could for example, be a charitable donation equal to the value of any proposed financial penalty. This option would still incentivise future compliance and contribute towards building consumer trust and confidence in the natural gas industry.

7 Conclusion

7.1 Overall the Consumer Council would like to compliment UR on the level of detail and analysis provided in UR GD17 DD and annexes. We also appreciate UR’s commitment to engage with the gas industry, the Consumer Council and other key stakeholders throughout the GD17 DD consultation period.

7.2 Having examined the DD and annexes, we believe UR’s GD17 DD delivers an evidence based and fair package for consumers. In particular we welcome the proposed lower distribution charges for FE and PNG compared to GD14\(^9\) - 25% or £45 less per year and 8% or £15 less per year respectively.

7.3 We are also satisfied based on the evidence UR has provided that the proposed allowed revenues should ensure there is sufficient investment to maintain and develop gas networks within each licence area and increase the take up of gas, particularly among the OO sector.

7.4 We have concern that the Rate of Return is a little higher than it need be and the Connections Incentive lacks the transparency required to deviate from the established policy line. We also raise some issues regarding the

\(^9\) In the case of SGN, UR’s proposal would result in a 14%.
sustainability and potential costs to future consumers resulting from the GD17 DD if the forecast of volume growth does not materialise. We ask UR to gives due consideration to these issues as it formulates its GD17 Final Determination and undertakes the proposed licence changes.

7.5 We look forward to continued working with UR and the gas industry to contribute to the development of a strong and efficient network that delivers for NI consumers.

7.6 If you require further information or you wish to discuss any aspect of this response please contact Richard Williams on 02890 251649 or richard.williams@consumercouncil.org.uk.
Floor 3  
Seatem House  
28-32 Alfred Street  
Belfast  
BT2 8EN

Freephone: 0800 121 6022  
Switchboard: 028 9025 1600  
Fax: 028 9025 1663  
E-mail: info@consumercouncil.org.uk