



The Consumer Council

By e-mail to:
cag@detini.gov.uk

Ref: PD20010815

17 June 2011

Dear Sir/madam,

Re: Common Arrangements for Gas Bill - Policy Consultation

The Consumer Council is a Non-Departmental Public Body set up in legislation to safeguard the interests of all consumers, and particularly the vulnerable and disadvantaged. The Consumer Council is an independent organisation which operates to promote and protect the consumer interest.

We welcome the opportunity to respond to this consultation on a 'Common Arrangements for Gas Bill' (CAG).

The Consumer Council recognises that the harmonisation of gas transmission and associated gas arrangements on the island of Ireland could facilitate the delivery of potential efficiencies and therefore result in lower prices for Northern Ireland consumers. We note that the CAG is estimated to provide £4.1m of benefits to Northern Ireland consumers over a 10 year period and £6.9m over 20 years.

Northern Ireland consumers will be paying for a proportion of the cost of the CAG (along with consumers in ROI). The benefits must therefore, be passed onto Northern Ireland consumers in lower prices and must not be allowed to just be absorbed by the gas industry's or electricity generators' profits.

The memorandum of understanding between the Commission for Energy Regulation (CER) and the Northern Ireland Authority for Utility Regulation (NIAUR) states that the cost for developing and implementing the CAG project

are to be allocated two thirds to the ROI and one third to Northern Ireland. It is therefore self evident that the benefits of the CAG are therefore received on the same basis between consumers in Northern Ireland and in ROI. Northern Ireland consumers must not be worse off as a result of the CAG and they must not pay for infrastructure issues existing in ROI – for example the strategic decision by the ROI Government to build its interconnectors with GB.

What do consumers want from the CAG?

In addition to the direct financial benefits identified in the 2009 Cost Benefit Analysis, consumers in Northern Ireland would benefit from:

- *Increased retail competition*

The Consumer Council appreciate that there are limitations to the potential for a competitive natural gas market in Northern Ireland, given the size of its customer base. We acknowledge that an all island retail market is a more attractive prospect for potential new entrants. However, there is no guarantee that the CAG project will deliver increased competition for Northern Ireland consumers.

As CAG focuses solely on the transmission of natural gas on an all island basis, more work will be needed to achieve a competitive all island retail gas market.

The size of the Northern Ireland market is not the only barrier for competition. Switching systems and supply margins are also barriers to entry. These are barriers which the CAG project will not resolve.

- *Lower prices / product innovation / improved customer service*

Competition is not an end in itself. The Consumer Council believe that competition, if designed correctly, can be a key mechanism in delivering lower prices and choice to consumers. However, to be viable competition must improve the customer experience for all consumers, including the vulnerable. No customer should be worse off as a result of competition and the price of energy must not increase due to measures taken to introduce competition.

- *Improved Security of Supply*

The Consumer Council acknowledge that one of the benefits that the CAG can deliver is to improve security of supply for Northern Ireland consumers.

Further benefits

- *Enhanced Investment Potential*

The Consumer Council recognises the benefits of investment opportunities, specifically the storage of natural gas in Larne and LNG at Shannon. If managed correctly Northern Ireland consumers could benefit from a gas

storage facility in Larne and that, via the CAG project, will also benefit from gas stored in ROI.

- *Interoperability with GB and Europe*

The Consumer Council acknowledge that the development of the CAG must be undertaken in a manner that is compatible with both GB and EU markets. Whilst we are aware of the European Commission aspiration to a Single Gas Market, clear strategic and economic benefits must be proven for Northern Ireland consumers before aligning ourselves to such a market. Further, clarification is needed over any additional costs that may occur in the future as a result of such an alignment.

- *Level Playing Field for SEM*

The Consumer Council welcomes any measures that would reduce the distortion in the electricity market, and the harmonisation of electricity grid connection policies is one such approach to achieve this. However the 2009 revised Cost Benefit Analysis does not show any net benefits associated with this and therefore, further analysis should be undertaken to assess the economic benefits for consumers via the SEM.

- *Efficient Network Planning*

The Consumer Council accepts that by harmonising network planning there could be scope for avoiding duplication in both markets. However, the 2009 revised Cost Benefit Analysis does not quantify these benefits and therefore they remain an unknown.

Consultation questions

The Consumer Council recognises the need for legislation in both jurisdictions to enable the CAG project to proceed.

- *Governance-* the Consumer Council considers the SEM Committee model of governance an appropriate way to proceed.
- *Retail harmonisation-* we have commented on this above at 'Increased Retail Competition'.
- *Harmonisation of the Duties of Regulators-* The Consumer Council wish to see more detail of how this would work in practice and evidence of the benefit to Northern Ireland consumers before we comment on this proposal.
- *Licence Modification-* The power for Regulators to amend licences to enable the operation of CAG is a necessary one. Concurrent with this power there will be need to be a mechanism of appeal, as currently exists for licence holders in Northern Ireland.

- *Property Arrangements*- the Consumer Council will comment on property arrangements when further details are made available in forthcoming consultations.
- *Harmonised tariffs*- In order to comment on the proposal to use legislation to provide Independent Regulators with the responsibility for setting tariffs, we require more detail on how this would work and the alternatives.
- *Information Disclosure* – we require more detail than is provided to comment on this section. As a minimum there must be a requirement for all information disclosure provisions to comply with UK and EU law.

Unfortunately there is limited information regarding the detail of the proposed legislation within the consultation to allow for meaningful comment. We would expect to see further public consultation take place as the Department progresses the drafting of the legislation.

I hope that these comments are helpful and are given due consideration. Please contact me if you require any clarification.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'R. Williams', with a stylized, cursive script.

Richard Williams
Senior Consumer Affairs Officer