The Consumer Council

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Barbara Cantley
NIAUR
Queens House
14 Queen Street
BELFAST
BT1 6ER

Dear Barbara,

Re: Retail Tariff Structure Review

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.

The Consumer Council welcomes the opportunity to respond to the consultation on the 'Retail Tariff Structure Review'.

The Consumer Council wishes to make a number of comments and does this in the context of welcoming and sharing the Regulator's desire to improve the energy retail markets in Northern Ireland in order to benefit consumers. The questions posed have been addressed within the three different headings and sub headings provided in the consultation document.

The Consumer Council support the introduction of competition in the domestic electricity market and the continuing development of competition in the non-domestic market. However, to be successful competition must not only deliver choice. It will only work for electricity consumers so long as it delivers:

- Lower prices to all consumers;
- Better customer service to all consumers;
- To all classes of consumers, and;
- Increases and targets protection to vulnerable consumers.

Proposals for PES tariff harmonisation

All Island Market Structural proposals

CfD liquidity

This proposal aims to promote competition and reduce electricity prices by allowing suppliers to be more innovative in their purchasing strategies. The Consumer Council has recognised this and previously called for the contract market to be liberalised allowing suppliers more freedom in when and how they purchase CfD's. It is also a recommendation of the McIldoon Report – 'Orphans in the energy storm'- that the purchasing opportunity available to NIIE Energy should be increased.

The Consumer Council would ask for clarification from the Regulator on whether a failure of the market to provide the necessary liquidity required would have a financial impact for consumers. Furthermore, we note that the cost of supporting a broker could possibly impose an excessive premium on contract prices.

We believe it would be helpful if the Regulator could state how much has been spent so far on developing the web based trading window and whether it is possible to evaluate the cost of this against the benefit of moving to new arrangements. In moving forward plans to develop the market a public and transparent cost benefit analysis should be undertaken.

Global Aggregation

The Consumer Council supports the objective of providing a level playing field in settling demand and supply between suppliers. It is in consumer's interests that supply and demand data is accurate and correctly apportioned between suppliers and customer groups as it will ultimately fall to consumers to pay for any errors.

However, we are mindful of the 'significant resources' that will be required to implement this proposal. Clarification is sought on how much these costs will be and whether they will fall to the consumer to pay.

Metering

The Consumer Council supports the development of a common metering Code of Practice but would ask for details of the estimated cost of the project. The support that this proposal gives to the future development of smart metering is particularly helpful.

It is the Consumer Council position that smart meters should be installed at no extra cost to consumers, as they will create significant recurring savings for the energy companies that far exceed the cost of installation and operation. Savings will come as a result of ending the need to dispatch meter readers

and estimate bills, whilst reducing significantly the call centre requirements and providing better load management through smart grid applications.

The Consumer Council regards the need for a Northern Ireland specific cost benefit analysis on the roll out of smart metering as an essential pre-requisite to any decision being made on this propsal. In considering the cost and feasibility of a smart meter programme consideration must be given to harmonising systems with the Republic of Ireland.

Developments such as the Single Electricity Market and the Common Arrangements for Gas, suggest that the all-Ireland market may also develop at the retail level. It is important to plan from the outset for changes that may later take place. Failure to do so may cause unnecessary and avoidable costs to achieve the same standard of service to all consumers.

All Island Regulatory Proposals

Profile Load research

The Consumer Council recognises the benefit of this proposal in providing a more cost reflective tariff, encouraging tariff innovation and providing data that could help identify fuel poor households.

However, we are concerned that money could be spent on developing a system that would immediately become obsolete on the introduction of widespread smart metering. We would like to see more detail on the cost and feasibility of this proposal being taken forward as an interim measure, prior to the development of smart metering. This proposal only emphasises the need for a cost benefit analysis and decision on the roll out of smart metering to be made in a timely manner on an All-Island basis.

SME Profiles

The Consumer Council believes that it is fair that the cost that the consumer pays should accurately reflect the cost of delivering the goods or service. We support transparency in price setting and would welcome a development that allows the consumer to have meaningful information about pricing and competition.

The consultation is right to raise the point that a more accurate profiling may lead to a wider range of final prices that businesses will be required to pay. We support the suggestion to undertake an assessment of the range of final prices that will result from the implementation of this proposal. This assessment should be completed prior to a decision being made on the implementation of this proposal. If it is found that there is a considerable disruption to pricing within the SME sector, it may be necessary for safeguards, albeit temporary, to be put in place to help businesses through the transition.

Smart metering is the major issue that undermines this proposal. A timely decision on smart metering needs to be taken before this proposal is taken forward.

Networking Charging Methodologies

Developments such as the Single Electricity Market and the Common Arrangements for Gas, suggest that the all-Ireland market may develop at the retail level. This proposal has the potential to help promote retail competition in electricity in Northern Ireland. However, the Consumer Council would wish to see greater detail of the costs and benefits to the consumer.

PES Regulatory Proposals

Separation of network and wholesale energy costs

The Consumer Council wishes to see transparency and accuracy in billing for all consumers. By separating network and wholesale costs the consumer will benefit from a clearer picture of how their bill is made up. This will enable them to compare the performance of different suppliers on the generation element – where competition does, or will, take place.

This is a step forward in allowing consumers to make meaningful price comparisons and for suppliers to innovate in their products. It will also allow them to see how the network elements impact on their final bill and compare the performance of the network elements year on year.

The Consumer Council supports the comprehensive billing standards of the British Standards Institute (BSI). However, how suppliers layout information on their bills will determine whether they are clear and easily understood. It is vital that in an attempt to provide more transparency and innovative pricing that suppliers do not confuse consumers with unnecessary and poorly displayed information. A recent survey by 'Which' magazine found that in GB a quarter of members surveyed struggled to understand how much they owe when reading energy bills.[1]

We wish to encourage the development of harmonised and consistent bill layout across all utilities and all suppliers. This would ensure that common and important information, such as a customer number, is always prominent and clear. We also want to encourage suppliers to use consumer focus groups and liaise with organisations representing S75 groups and vulnerable consumers, to test the layout of bills for clarity and accessibility.

The Consumer Council believe that completely accurate billing will only be possible with the introduction of smart meters. We would welcome a timely decision on their implementation across Northern Ireland.

[1] Which, October 2009.

Contract term and indexation and time of use tariffs

The Consumer Council commissioned Millward Brown to carry out consumer research. We found that almost half (47%) of consumers would prefer their energy bills to be fixed for a defined period, rather than variable to reflect fluctuations in international fuel prices. Over a third (35%) of consumers preferred the idea of a variable energy bill[2].

The Consumer Council therefore wishes to see more choice for the consumer in the retail electricity market. This means choice in terms of suppliers, product and price. Where this proposal will deliver this we would welcome it.

The Consumer Council believe that lessons can be learnt from the GB experience where only half of consumers have actually switched and they are becoming confused with over 4000 tariffs available[3]. The Consumer Council believe that it is important that safeguards are put in place to protect consumers from aggressive marketing and splitting of the market by suppliers into desirable and non-desirable customers.

In respect of this proposal we would like to see research undertaken into the experience in GB and other jurisdictions. There is also a need to establish in more depth the attitude of Northern Ireland consumers to different tariff products.

Tariff methodology Statement

The Consumer Council believes that it is unclear from the consultation of what the benefits and disadvantages of this proposal are.

Conclusion

The Consumer Council welcome the proposals outlined in the consultation as they represent positive initiatives to promote competition in the electricity market in an All-Island context.

However, we believe that work still remains to be done to ensure that the benefits justify the cost. Crucially, the future for smart metering across the island of Ireland needs to be decided. Finally, we must learn from the experience of other jurisdictions, particularly that of GB, to ensure that increased choice benefits all, including vulnerable, consumers.

Yours Sincerely,

Richard Williams,
Senior Consumer Affairs Officer

[2] The Consumer Council – Fuel Usage Survey September 2009 (Millward Brown Ulster Limited)
[3] Which, October 2009