



**Response to the Utility Regulator
Review of DUoS Domestic Tariff
Charging Methodology**

November 2017

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) Review of DUoS Domestic Tariff Charging Methodology. We recognise UR's efforts to ensure suppliers cannot change the current domestic tariff structure.

2 Consultation questions

Q1. 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?

2.1 Standing charges were effectively removed from NI domestic electricity tariffs¹ in 1999 with the key aims of protecting vulnerable consumers and encouraging efficient use of electric by large domestic users. With the rise in fuel poverty levels since that time, 42% according to the latest official statistics², those aims are even more important now than in 1999.

2.2 Therefore The Consumer Council agrees that adopting Option 2, a per unit domestic DUoS charge, should maintain a positive impact on consumers from an equality perspective.

¹ With the exception of E7 tariffs.

² NIHE House Condition Survey 2011.

Q2.Do respondents consider that the proposals for the review of the Domestic Duos methodology need to be refined in any way to meet the equality provisions? If so, why and how? Please provide supporting information and evidence.

2.3 The Consumer Council deems the proposals to be satisfactory, unless additional evidence is presented to the contrary.

Q3.Do respondents agree that having a standing charge element in domestic DUoS charges and unit based retail tariffs means there isn't a level playing field for suppliers in the context of the current arrangements where all suppliers charge a unit based retail tariff?

2.4 The evidence we present in table 1 shows that the correlation between the number of customers and the volume of consumption each supplier has is not consistent. This indicates that some suppliers have more high consumption domestic customers than others.

2.5 We recognise that this misalignment may distort the revenue streams of suppliers. Without any figures we cannot comment on the extent of this as an issue or on the response of suppliers to it. It would be useful for suppliers to bring forward evidence on this point.

Table 1. Domestic market share by connections and consumption

| | Market share connections (%) | Market share consumption (%) |
|------------------|------------------------------|------------------------------|
| Power NI | 60.10% | 57.40% |
| SSE Airtricity | 24.10% | 27.50% |
| Electric Ireland | 6.40% | 5.90% |
| Click Energy | 3.30% | 3.20% |
| Budget Energy | 6.10% | 6.00% |

Source: UR Quarterly Transparency Report Q2 2017

2.6 Whilst we do not know the extent of the distortion, the effects could be long term and negative to consumers. For example, if the misalignment is not addressed suppliers may:

1. Reintroduce standing charges; and/or
2. Modify their market acquisition strategy to target larger users at the expense of low users.

Q4.Do respondents agree that there are only two options? If you identify any alternative option please provide a full explanation.

2.7 The Consumer Council does not wish to propose any alternative options. However, we ask the UR to consider expanding the scope of this review to E7 tariffs to assess whether it would be beneficial to consumers to remove the standing charge and ensure consistency across all electricity domestic consumers in NI.

Q5.Do respondents have any views on the advantages & disadvantages of each option? If so, please give a full explanation.

2.8 The Consumer Council broadly agrees with the advantages and disadvantages that the UR has outlined in the consultation paper. In particular we believe strongly that the introduction of standing charges would be a regressive step for consumers. We have outlined the main reasons below:

1. A standing charge would be financially detrimental to low use consumers. We have commented on this issue in points 2.1 and 2.2 of our response.
2. The current domestic tariff structure is long established in the electricity market retail and overall The Consumer Council believes it benefits consumers.
3. A further issue is one of consumer perception. The Consumer Council has anecdotal evidence from natural gas complaints where the application of

the minimum charge³ has led to consumer dissatisfaction, loss of trust in suppliers and the perception of being unfairly charged. We are concerned that the introduction of a standing charge in electricity would be met with a similarly negative consumer response at a time when consumer trust is paramount to ensuring competition continues to develop in NI.

4. The standing charge would unnecessarily add complexity to electricity tariffs. This goes against the direction of travel in NI which is to make bills and tariffs easier to understand and compare between different suppliers. This encourages consumers to shop around for the best energy deal.

2.9 The consultation paper highlights potential issues that NIE Networks has identified. These are detailed in points 3.7 to 3.13 of the UR consultation and include potential volatility in the k factor, cross subsidisation of domestic self-generators, changes to the statement of charges and dealing with Long Term Vacant (LTV) sites.

2.10 We welcome the UR assurances that these issues are unlikely to materialise or materially impact on consumers. We note the UR intention to investigate further the regime for LTV sites and we look forward to reviewing the outcome.

Q6. If option 2 was chosen and implemented do respondents think that there should be a supplier licence obligation to charge unit based domestic retail tariffs i.e. no standing charges?

2.11 The Consumer Council supports in principle that the requirement to charge unit based domestic retail tariffs becomes a licence obligation to suppliers. This would provide certainty to consumers and suppliers by providing a level playing field.

³ Typically charged to credit meter customers who do not meet a minimum consumption threshold.

2.12 We note the UR point that the licence change “may limit the number and type of tariffs.” This would be an area of concern for The Consumer Council if this restricts innovation and choice in the domestic retail market.

2.13 We are unclear why the UR suggests that this may be the case and would like to see further evidence on this, and to what extent this may materialise and how. For example, evidence of potential impact on current products such as discounts on unit rates or loyalty/incentive payments.

2.14 However, based on the evidence available, The Consumer Council is of the opinion that the benefits outweigh any potential detriment.

3 Conclusion

3.1 The Consumer Council supports strongly the adoption of option two. Based on the existing evidence, this will provide significant benefits to consumers and suppliers that outweigh the limited number of disadvantages identified. We ask the UR to consider extending the scope of this review to E7 tariffs.

If you require further information or you wish to discuss any aspect of this response please contact Paulino Garcia on 02890 251645 or Paulino.Garcia@consumercouncil.org.uk.



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