



national consumer agency
gníomhaireacht náisiúnta tomhaltóirí

putting **consumers** first

**National Consumer Agency Response to the Commission for Energy Regulation's
Consultation Paper "Gas Tariff Review 2011-12 BG Energy's Residential Gas Customers"
CER/11/133**

The National Consumer Agency (NCA) welcomes the opportunity to comment on the Commission for Energy Regulation's (CER) Gas Tariff Review 2011-2012. The Agency is available to meet with the CER to discuss these comments in greater detail if required.

General Comments

Bord Gáis Energy (BGE), Ireland's largest residential gas supplier, has submitted a request to the CER seeking approval to increase the regulated residential gas tariff by 28.13%. In response, the CER is of the initial view that the increase should be in the order of 22%.

The NCA believes that the magnitude of the proposed gas tariff increase, coupled with rising taxes and decreased state-provided utility allowances, would place a very large burden on consumers, in particular those on low incomes and with special energy needs. The NCA is therefore calling on the CER to sanction the absolute minimum tariff increase necessary, less that the 22% proposed.

In this response, the NCA seeks assurances from CER with regard to BGE's proposed pricing, particularly with regards to its previous hedging performance. The NCA also seeks clarification on BGE's operational costs and emphasises the principle of cost sharing between producer and consumer.

International Commodity Costs

The NCA recognises that fluctuations in the global market for natural gas are beyond BGE and CER's control and that factors in the international environment are responsible for the majority of the increased cost of gas that BGE now faces. The NCA notes BGE's graduated

approach to sourcing natural gas, a prudent approach which is designed to protect consumers from significant spikes in gas prices. The Agency however seeks information with regard to the success or otherwise of BGE's past record in gas hedging and specifically requests this information in order to ascertain the impact, if any, to which prior hedging strategies have resulted in the current request for a 28% tariff increase.

The NCA also notes the recent significant falls in crude oil prices, which in time are likely be replicated in the market for gas. It is hoped that the reduction, if it comes to pass, will be incorporated into consumer charges as quickly as is practicable.

BGE Operational Issues

The CER report notes that supply costs of BGE have increased by 23% in the preceding year. Supply costs, including bad debts, have risen exponentially in the past two years according to BGE. BGE also claim that it has previously absorbed the majority of these increases, but, as a commercial entity, must now attempt to recover these costs. The NCA is concerned that the overall increase in supply costs of 23% seems to be attributed solely to a rise in bad debts. The NCA seeks clarification as to whether this is the case and also requests increased transparency on any changes to other elements of BGE's operating costs such as marketing, administration, call centre, customer support, overheads etc.

The NCA would welcome the publication by CER of non-commercially sensitive outcomes resulting from a detailed examination of BGE's operational costs to ensure that the organisation is performing at a maximum efficiency. Any areas in which potential savings could be made must be subject to a high degree of scrutiny. The NCA believes that increased transparency in BGE's cost base and in the mechanism of tariff changes would greatly improve consumers' perception of the fairness and equity of a tariff increase in a time of severe economic hardship.

Consumer Impact of Proposed Increases

The NCA is concerned that a 22% increase in BGE's residential tariffs, as suggested by the CER, would put undue pressure on Irish consumers who already experience difficulties in the current economic climate. Consumer incomes are falling coincident with higher interest rates on mortgage repayments and increased taxes and utility costs. The CER and BGE both comment that since 2008 the price of gas has fallen by as much as 25% and so following the

proposed increase of 22%, tariffs for the year 2011-2012 will remain lower than 2008 levels. It should also be noted however, that consumer incomes have fallen over the same period, with the effect that although the price of gas may in fact be no higher than 2008 levels, the proportion of household expenditure going towards gas will be proportionally higher, in particular for low-income families.

The impact of proposed tariff increases will weigh most heavily on consumers in lower income categories and on those with special energy needs. Several reductions in social welfare utility allowances are to take effect from September 2011. Low-income families who qualify for these allowances will find themselves facing increased costs for their electricity, gas and telephone bills, even before the proposed increases in gas tariffs are applied. The Gas Allowance¹ will be reduced from €489 to €393 annually with effect from September. This reduction, coupled with an increase in tariffs, is likely to place a large burden of adjustment on many low-income consumers, the elderly and those receiving disability benefits.

The serious issue of fuel poverty and the impact that the proposed increases will have on the numbers included in this category cannot be ignored. In light of tariff increases of any magnitude, BGE and CER's commitments to supporting customers struggling with payments must include specific efforts to protect those at risk of falling into fuel poverty.

Leaving aside those who are, or are in danger of becoming, fuel poor the NCA welcomes the commitment of both BGE and CER to providing support to customers facing difficulties in meeting their energy bills and to emphasise the savings that can potentially be made by shopping around in the market for utilities such as gas. The NCA recommends a strengthening of the supports offered to consumers, increased focus on methods of managing gas bills such as flexible payment plans and Pay-As-You-Go meters.

Future Gas Price Changes

The CER consultation paper also anticipates longer term future gas price increases; accredited to the rising demand and diminishing supply for gas and other fossil fuels worldwide. The NCA recommends that BGE make efforts to adequately prepare for increases

¹ <http://www.welfare.ie/EN/Pages/changessummarysept2011.aspx>

in customers seeking assistance and support in meeting their gas payments. Energy efficiency and conservation will be a key part of mitigating future energy price increases and CER and BGE, working with all relevant third parties, should step-up their efforts to educate consumers in using gas as efficiently as possible.

The NCA welcomes CER's decision that losses on historic bad debt should not be paid for by current BGE customers. The NCA wishes to highlight that the increased tariff, should it be approved by the CER, is likely to result in future bad debt accumulation by BGE as customers find themselves unable to meet increased payments. BGE has recognised this in its request to increase its provision for bad debts. BGE and the CER must ensure that losses on future bad debts do not adversely impact current or future customers.

Regulatory Oversight

The NCA wishes to seek assurances regarding provisions in the current regulatory framework that account for the potential of cross-subsidisation between the residential and non-residential gas markets as well as between BGE's interests in the residential gas and electricity markets.

BGE is active in both the residential and commercial gas markets in Ireland but is regulated in just the residential market. The NCA would like to emphasise that while it recognises that the CER has no role in setting tariffs in the non-residential market, evidence of the principle that the burden of increased gas prices be shared equally by BGE, the residential market and the non-residential market should be adduced. If the non-residential market should prove to be more profitable, it should not be the case that BGE or indeed another energy supplier diverts resources from the residential market at the expense of those customers.

Also of concern is the potential ring fencing of profits from other BGE operations. The NCA would seek clarification on the reinvestment of revenue generated by BGE from activities in previous years and the degree to which investment is spread equitably across BGE's various customer groups.

Conclusion

The NCA in this submission has outlined its views on the proposed gas tariff increase and has called on the CER to sanction the absolute minimum tariff increase necessary, less that the 22% proposed. In this paper the NCA also:

- Seeks information with regard to the success or otherwise of BGE's past record in gas hedging to ascertain the impact, if any, that prior hedging strategies have in the current request for a 28% tariff increase;
- Requests the publication by CER of non-commercially sensitive outcomes resulting from a detailed examination of BGE's operational costs to ensure that the organisation is performing at a maximum efficiency. Increased transparency in BGE's cost base and greater detail pertaining to how tariff change decisions are made would greatly improve consumers' perception of the fairness and equity of a tariff increase in a time of severe economic hardship;
- Notes that BGE's renewed commitment to customers struggling with the burden of payments is welcome, however the NCA would like to see recognition of the issue of fuel poverty and proposals on behalf of BGE to assist those most affected by increased gas tariffs;
- Is aware of the potential for longer-term future increases in the price of gas in international markets, as both BGE and the CER have recognised. The NCA urges BGE and the CER to exercise appropriate foresight and take actions in the short-term to minimise the potential negative impact to customers in the years to come. In the short-term gas prices may fall and the NCA requests that any falls that do occur be swiftly incorporated into consumer charges.
- Stresses the importance of appropriate regulation in the Irish energy market, in particular clarification should be made with regard to the degree of overlap between BGE's regulated and non-regulated commercial activities and to what extent, if any, cross-subsidisation currently takes place.

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