Northern Ireland Assembly

Committee for Enterprise, Trade and Investment

OFFICIAL REPORT (Hansard)

Electricity Policy Review: Consumer Council Briefing

3 October 2013

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Patsy McGlone (Chairperson)
Mr Phil Flanagan (Deputy Chairperson)
Mr Steven Agnew
Mr Sydney Anderson
Mr Sammy Douglas
Mr Gordon Dunne
Mr Alban Maginness
Mrs Sandra Overend

Witnesses:

Mr Aodhan O'Donnell	Consumer Council
Mr Richard Williams	Consumer Council

The Chairperson: Briefing us today are Aodhan O'Donnell and Richard Williams from the Consumer Council. Thank you very much for being here. Aodhan, perhaps you would make your presentation to the Committee on the electricity review.

Mr Aodhan O'Donnell (Consumer Council): Yes, no problem. We thank the Committee for picking up on the issue of energy costs, particularly electricity costs. For us in the Consumer Council, energy costs continue to be the biggest issue for consumers. When we speak to consumers and consumer groups — and I am sure that it is the same for Committee members — those costs are consumers' number-one concern. If you put in context price rises over the past number of years, it is little wonder that that is so. Since 2007, the price of electricity has gone up by 61%, and since 2009 the cost of home heating oil has gone up by 62 %, and gas by 38%. There have been very high rises in energy costs for consumers while incomes have been static or falling.

The paper that we submitted is evidence. It points to issues and experiences that consumers have had with regard to electricity and perhaps the wider energy market. We have also referred to, and provided a submission on, the analysis that we did last year on the McIldoon report. That work was undertaken in 2008 to look at electricity price increases, what was behind them, and what could be done to address them. We point towards that report as, hopefully, supporting the Committee in gathering its information and evidence.

There is also the report by Lord Whitty. Some time ago, Lord Whitty presented to the Committee. He had also looked at the wider energy market and some of the short-, medium- and long-term objectives or considerations for the electricity market in particular. We hope that they will make a valuable contribution to your debate. In the report that we produced last year, one of our calls was that there needs to be further discussion and debate on electricity prices. We are pleased and delighted that that is being looked at in the present inquiry.

Our submission probably raises many questions and issues that need to be considered. We make no apologies for that. We will probably be talking about flooding next. *[Laughter.]* There is still a great deal of confusion among consumers about the market, how open and transparent it is, and how it operates. It is quite a crowded landscape. There are many stakeholders on the industry side; departmental policy; the Utility Regulator; consumer organisations; and domestic and non-domestic users. There are a lot of players. It is difficult to get to the information and detail that provides the confidence that consumers need.

We recognise that the Committee's focus is predominantly on industrial and commercial costs. That is important for consumers as well because the costs that businesses bear are passed on to consumers. I suppose that much of the experience that we have put through or the issues that we have raised are more on the retail and domestic side. We recognise that there are differences with regard to regulation, the market, the volume used, and things like that. However, there is still read-across on many of the issues. We will pick a couple of those out as key points.

Richard will pick a few points out of the paper that we think are most relevant in order to highlight a few of the things that we have been working on recently. The Consumer Council has its statutory role in the Energy (Northern Ireland) Order 2003. We work to customer service standards to try to influence energy policy, looking at price controls and tariff reviews. In the past year, we have returned £92,000 to electricity customers — about £60,000 to business and £32,000 to domestic customers. That is mainly because of building disputes and errors with meter readings, for example. If customers are unable to resolve a dispute with their company, they refer it to us; it comes to us when there has been dissatisfaction or a poor response from a company.

There is now switching and competition in the domestic market. There are four active suppliers and 28 tariffs and, according to our research, 18% of consumers have switched in the past year. There is an 18% saving or £108 difference between the most and least expensive tariffs, so there are savings for consumers to make on their energy costs. We have found that low-income consumers and consumers at the opposite age of the age profile — the older and younger consumers — are not switching. Therefore those least able to pay are paying most for their energy; we see that across the sectors. If members want to pick up on that discussion I am happy to do that.

We thought that we would pick up a few key points from the paper and highlight them. Richard will do that now.

Mr Richard Williams (Consumer Council): Thanks very much. I have seen some of the briefings that you have had from other organisations on this issue. I realise that some of the issues that I will cover briefly will have been covered by those organisations and that you will probably have got a rather technical view from them. Hopefully, I will be able to give you a little bit more of a consumer context.

The first thing that I wanted to throw in is the McIldoon report of 2008, on which, as Aodhan said, we have done an analysis. One of the fundamental issues on energy policy that McIldoon raised was the conflict between promoting sustainability and affordability. He commented that there can be conflicts between them but that they can be resolved. As I go through the issues, I will highlight how sustainability affects the cost for consumers.

I will split my comments in the traditional view of generation, network and supply; that is probably the easiest way of breaking things down. The first, generation, is probably the most important for us. About 58% of the cost of the consumer tariff — the actual cost of electricity — is caused by generation. In 2005, it was about 48%, so the significance of the generation element is increasing. That is why it is the area that we focus on. It is also the one that we probably have the greatest concerns about with its impact on costs and on whether consumers are getting a fair deal.

One of the issues raised by McIldoon was generators' profits through the single electricity market (SEM). Between 2008 and 2011, the average profit margin for generators in the single electricity market was 49%. To put that into context, Power NI, which is the regulated supplier of electricity, has a regulated tariff with a profit margin of 1·7% and suppliers in GB have profit margins of about 8%.

The other area that you have heard about from the other organisations is capacity payments, which are one of the complexities of the single electricity market. The McIldoon report commented on that and wondered whether consumers overpaid as a result of capacity payments and whether they need to be looked at. I think that the pot put aside for capacity payments is about €600 million. I am sure that you understand that the concept behind those payments is to reward generators that are not running but which are available.

One of the anomalies around capacity payments, which relates to the issue of sustainability and the agenda of improving renewable energy, is that wind turbine generators receive capacity payments. The logic behind capacity payments is that generators are available when they are needed. However, wind energy is not always available. The point is that it needs to be backed up. Therefore, you might need to look at whether they should receive capacity payments. We raise those issues because we think that they should be looked at, because the technicalities behind them can get quite complex.

The average profit margin for wind generators in the SEM is 79%. Wind generators are very well rewarded from the single electricity market. That may be because there is a big incentive to provide large incentives for them to try to hit the renewable energy targets, but it is an indication of how that could be adding costs to the end consumer.

We have been looking at the network, which in Northern Ireland is Northern Ireland Electricity (NIE). We have raised concerns about the recent price control, which is at present with the Competition Commission, and we have an issue about how NIE is regulated. We are concerned about how it ended up with the Competition Commission and that there was a huge gap between what NIE suggested it needed to maintain the system and what the regulator said. That has not yet been resolved. To go back to the targets for renewable energy, we are aware that a large proportion of what NIE has put into the price control is the cost of the North/South interconnector and the cost of reinforcing the grid to get wind on to the system. That is not an argument against wind, however; it is explaining that, from what we can see, it is adding costs, and there seems to be something inevitable about that.

The Chairperson: I am conscious of the time.

Mr Williams: I move on, finally, to issues around the supply side. Aodhan raised a number of issues around competition. The domestic tariff in Northern Ireland is regulated, whereas the tariff for customers in GB is not. Therefore, you might want to compare the two to see which of the systems works better for the consumer.

The Chairperson: Thank you very much. I want to start with an issue that has gone round in circles. You mentioned the 79% gross profit from wind energy firms. I listened very carefully, and you said that, in 2005, the cost of generation was 48%, and it is now up to 58%. There has not been a huge increase in renewable energy sources, although there are targets to be met. I am trying to establish how the cost of generating wind has gone up while, at the same time, wind energy firms are returning gross profits of 79%. I would anticipate that there should be some benefit with regard to the overall cost from renewable sources. Energy costs should, in some way, start to flatten out when we use more renewable sources. I can understand that, in markets such as gas, unpredictable situations can affect things. However, that energy is coming from renewable sources, and you mentioned the profit margin. Could you provide us with details of that profit margin? You referred to the consequences of Power NI being regulated. Does that make a case for the introduction of further regulation around those companies?

Mr Williams: On the first point, 79% is the figure that has been produced by the regulators in the Republic and in the North.

The Chairperson: Is that on all renewable energy?

Mr Williams: It is a report from May of this year on the profitability of the generators in the single electricity market; it details the different types of generators.

The Chairperson: OK. Thanks.

Mr Williams: We are told that the whole of the electricity network is regulated. The Utility Regulator here told us that they have control over every aspect of the network from supply side — that is Power NI, which is regulated. NIE is the network provider here; it has the monopoly, and it is regulated, and we are told that the generators are regulated. The form of generation is not quite the same as it would be with NIE, but the regulator looks at the cost of the generators that are put into the SEM, so those costs are evaluated. That happens to some extent; however, it is an area that you should look at to see how it works.

The other point is about wind bringing down the price. Wind generators take the price that the fossil fuel generators put on.

The Chairperson: Yes. That is my point.

Mr Williams: They do not set the price; they take the price.

The Chairperson: That is right. It is more or less catch-up time every time with no justifiable reason, other than that they can do that.

Mr Williams: They can. The fossil fuel price includes the cost of carbon; wind does not have carbon, so you could argue that they take the cost of carbon.

The Chairperson: Thanks very much for that.

Mr Williams: One of the points that McIldoon made was around trying to decouple the link between wind and fossil fuel.

The Chairperson: The other issue is capacity payments for wind. Do you have any views on that?

Mr Williams: Capacity payments are a bit of a problem. We know that they put quite a large amount on to the end price for consumers. The European Union recently issued a paper that looked at various aspects of capacity payments around Europe, and there are different mechanisms available. Not all countries use capacity payments to reward investors to keep or to build generation. There are other ways of doing it, and the EU has been quite critical of capacity payments according to what the Utility Regulator has told us. Wind does not appear to satisfy the point behind capacity payments. They are always available to fill in if something else does not.

The Chairperson: Even if they may not be available according to the wind strength?

Mr Williams: Exactly. If they are not available, but they are being paid to be available —

The Chairperson: Even if they naturally cannot be.

Mr O'Donnell: I think that the overarching principle of some form of insurance or capacity is that if there is peak or intermittent demand, that is a good thing because consumers are telling us that the biggest thing for them is security of supply and keeping the lights on. That is obvious. However, when you work out the detail of how that works in practice between two types of generation, wind and the more traditional fossil fuel, and how they are both being rewarded to the same degree or the same extent, then, as McIldoon said, we need to take a look at how that is decoupled.

Mr Flanagan: Thank you for the presentation. Are generators being paid too much to generate electricity?

Mr Williams: Well, McIldoon concluded that consumers are not getting the best deal. He said that there was confusion and that there were contradictions in the energy policy and that part of that was how generators were paid.

Mr Flanagan: Are they paid too much?

Mr Williams: He also referred to the fact that —

Mr Flanagan: We are trying to come up with an evidence-based report, so a "yes" or a "no" would be enough — preferably a "yes". *[Laughter.]*

Mr Williams: Preferably a "yes"? Well, consumers are paying a lot for their energy. You are looking at profits of 79% for wind generation and 49% for conventional generation in the SEM according to the report.

Mr Flanagan: That is a bit high.

Mr O'Donnell: As a starting point. That would throw up a flag for looking at those returns. There is an issue around the cost of capital and such. McIldoon said that the consumer rather than the industry bore more of the risk than they needed to, so that needs to be balanced out.

Mr Flanagan: Have you asked Douglas to update his report in any way recently?

Mr O'Donnell: This was the 2012 report that we produced. He produced a report on the back of 37% increases in 2008. We have taken it and asked what has moved on and what has not. That is our starting point. Many of the issues that we raise in the paper are a reflection of what is in that. To a certain degree, the issues are the same as those identified in 2008.

Mr Flanagan: What needs to change in the single electricity market to ensure that renewables have a greater downward impact on the prices that consumers pay?

Mr Williams: As I said, one of the suggestions is that we should break the link between fossil fuel price and wind.

Mr Flanagan: How do you suggest we do that?

Mr Williams: The SEM committee has to look at how it structures and designs the market; it is a very complex system. However, there are alternative models; it does not have to be based exactly on the one that it has. They are in the process of having to look at that again, because Europe is now saying that, with interconnection, you need to look at the SEM and see whether it fits in with the British Electricity Trading and Transmission Arrangements (BETTA) model in GB, and with others that operate in Europe. Therefore it knows that electricity market reform is taking place, and now is the opportunity to look at that and say: not only should we reform it with respect to how we can integrate with the rest of Europe but also whether this model gives consumers the best possible outcome and whether there are other models that can be looked at.

Mr Flanagan: Would you agree that not all generators should be paid the same price to generate electricity at the same time?

Mr Williams: The SEM is a competitive market; therefore, the point behind competition is that generators will bid at a competitive price.

Mr Flanagan: Yes, but what they are bidding is not what they are actually paid. Should the price that they are paid reflect their cost and not the —?

Mr Williams: That is a detail of a very complex market. It would be too easy to say: no, they simply should not. It is a complex market, and it needs to be looked at. There is a reason behind capacity payments.

Mr Flanagan: Therefore if you were to make a recommendation on how that should be dealt with, your recommendation would be that the SEM committee should carry out an assessment or look at it.

Mr Williams: Indeed.

Mr Flanagan: That is all right. Is competition among electricity generators working, or is further regulation of the price that generators are paid required?

Mr Williams: We can only look at the out-turn price.

Mr O'Donnell: That is the difficulty with the openness and transparency that we have. I know that this is not the question that you asked, but if you were to ask us whether competition is working for consumers, we would question whether it is, because this is where you need openness and transparency around the competition in electricity generation. We can tell you why we think that there are issues with competition in the domestic market. I know that that is not your question, but it is where we have our expertise, compared to the industry, the market and stakeholders.

Mr Flanagan: The Consumer Council recently published a report on switching.

Mr O'Donnell: Yes.

Mr Flanagan: What ideas have you for greater energy efficiency to save consumers money?

Mr O'Donnell: Energy efficiency allows the consumer to take some control and perhaps reduce energy use; it does not address energy-cost issues. We are due to publish a report on the energy efficiency schemes that are run here. There is still a great deal of confusion among consumers about the energy efficiency schemes that are available and their accessibility. We also question whether so many schemes give us enough bang for buck. If the programmes were pulled together better and there was more simplicity in the types of schemes on offer, that would probably increase the number of people taking up energy-efficiency schemes. It might also tackle some of the schemes' administration and management costs. We have recommendations for simplifying schemes for consumers and giving them more access to more schemes. It is more important that we try to streamline things a bit better.

Mr Flanagan: Have you any idea when the RP5 price determination is likely to come out?

Mr O'Donnell: About a month ago, the Competition Commission applied for and got an extension for six months. That takes it through to March, but it may report sooner. That is the information that we have at the moment.

The Chairperson: Phil, at this point will you take over the Chair?

Mr Dunne: Thanks. Safe journey, Chair. Take it easy. Gentlemen, you are very welcome.

The Chairperson: Thanks very much, gentlemen, I am sorry that I have to go, but what we have heard in exploring some of the key points is very interesting.

Mr Dunne: I would like your opinion on the North/South interconnector. Security of supply is causing us more and more concern. Is it necessary to have the interconnector up and running fairly soon?

Mr Williams: Definitely. According to all the research and the experts, we are told that the consumer is losing £25 million a year. I think that that is across the whole of Ireland, because of the single electricity market. You will be aware of the security of supply concerns that are emerging because of the closing of Ballylumford and the problems with the Moyle interconnector. The North/South interconnector is crucial to getting through that problem and to keep prices low in future. It allows energy to travel across the whole market unconstrained.

Mr Dunne: Have you lobbied on behalf of those trying to get through the planning system?

Mr O'Donnell: I do not think that we have directly lobbied on behalf of the scheme. In our reports we have represented all consumers by saying that the cost of not having an interconnector is £25 million and that not having it raises a security of supply issue. That is why we are supportive of ensuring that there is interconnection. We are also trying to ensure that the Moyle interconnection is back up, because I think that it is running at only half capacity. It may be some time before it is fixed as well. Both the North/South and east-west interconnection must be improved.

Mr Dunne: Is there a risk to consumers of a drastic increase in the cost of electricity due to the upgrade in the network that you talked about? That would have to be done in conjunction with the Utility Regulator. You would also have an input. Do you see a potential risk in upgrading the network and also in doing what the Republic has done in supplementing industry? Is there a possible risk to consumers that that may happen in future? Does that concern you?

Mr Williams: It is an issue of great concern because, as far as we can see, it will add to costs. We do not know how the Competition Commission will decide the price control that it is looking at, but there are very large costs in there, a large proportion of which are for investing in renewing the grid for renewable energy. It will approve some of it; I do not know how much, but that will add certain amounts. In the 'Strategic Energy Framework' of 2010, the Department estimated that between £49 and £93 would be added to the bill of every domestic consumer to reach the 40% renewables target. Other figures attached to the NIE price control were around that, and they are all about adding money on. It all got a bit confused because the regulator's proposals took money off, but there are definitely amounts going on to that. However, a strategic decision has been taken that we have to hit a target of 40% renewable energy.

Mr Dunne: The other issue was supplementing industry, which seems to be happening in the Republic. The domestic consumer there is paying more per unit for electricity than are business, commerce and industry. What is your opinion on that?

Mr Williams: Our organisation is primarily concerned with domestic consumers. There is a lot of lobbying for business. However, we also recognise that if businesses and the economy are strong, consumers will benefit. It is a question of balancing the two. Our priority is to tackle fuel poverty by keeping bills down for domestic consumers.

Mr Dunne: Domestic consumers are your priority.

Mr Williams: Fuel poverty has been one of our priorities for some years.

Mr Dunne: There have been pilot projects in relation to smart meters. Have you had any feedback on how those are progressing?

Mr O'Donnell: We have just been kept informed of the reports of the smart meter project. The University of Ulster led on some of the work on smart meters and some of the pilots. Some of that work is still ongoing. We have been informed, but not —

Mr Dunne: Are you drivers for it? Would you encourage buyers to go down that route?

Mr Williams: You have to see exactly what benefits smart meters will bring. The important thing with them is that they bring benefits to consumers and industry. We would not expect to see consumers having to pay for —

Mr Dunne: The initial cost?

Mr Williams: — an innovation that will provide very large benefits to industry as well as consumers.

Mr Dunne: So, the cost will be an issue of concern?

Mr Williams: If the cost to consumers is excessive and they do not benefit from it; absolutely.

Mr Dunne: We are probably going into another cold winter, and we are still stuck with 70% of consumers on oil. What has been done by people such as you to encourage the greater uptake of gas in areas in which the network has already been laid? I understand that, in the greater Belfast area, the uptake rate varies from 27% to about 47%. Surely more should be done by you and others to encourage people to switch.

Mr O'Donnell: Those figures are about right. It is close to 50% at the high levels of homes connected to gas, but something around 90% of the network passes by homes. Up to about 40% or 50% are connected, but up to 90% could be connected. Much more needs to be done. We have been very clear that there are significant savings to be had by consumers through switching from oil to gas. It is £657 on an average bill.

Mr Dunne: Is that per year?

Mr O'Donnell: Yes. The companies are incentivised to try to encourage people to switch, and they are rewarded for that. A lot of it is about consumer education and awareness; making sure that people are aware that gas is available in their area and that they can switch. We also produced a report last year on the experience of people who had switched from gas. On the whole, without any —

Mr Dunne: Switched to gas?

Mr Williams: Converted to gas.

Mr O'Donnell: Sorry; conversions. The consumer experience has been really positive. People who moved into homes with gas already installed, and who had moved from oil, have had a very positive experience. It is about trying to get over some of the misinformation or fear factor that maybe still exists around having gas as a fuel. We see the consumer experience as being very positive. It is about trying to promote that as much as we can to encourage people to do it. We are doing some more research in areas that are on the gas network but have not connected to see what barriers are preventing people making the switch. There is obviously the cost factor. I think that the average cost of a conversion is £3,000. That is hard money to find. However, if you look at the savings available on an annual basis, and if they can get some support to make the conversion, the savings will be there in three or four years.

Mr Williams: The figure of £657 that Aodhan mentioned needs some clarification. A number of figures have been put around by different sources. We have done a lot of work in working out the difference, in practice, for consumers and householders in Northern Ireland. The £657 figure is part of a report in which we have done a lot of research. We have used Sutherland Tables, an industry accepted guide for energy use in the home, to compare gas with oil in kW hours. We have done a lot of calculation to give us the overall domestic energy bill and the difference between a household using gas and one using oil. That is how we came up with the figure of £657. It is quite an astounding figure. You may hear some say that there are different figures. Our report, which, I think we have made available to you, shows that there are other methodologies. We feel that this methodology is robust for the purposes that we want to use it for.

Mr Agnew: Thanks for the information so far. There is a lot in your report and presentation about wind and the potential cost to consumers from upgrading the grid. I think you mentioned that you have taken a look at some of the presentations we received on electricity prices. One of the things that wind does, if I understand it correctly, is put a downward pressure on prices when the demand is such that it can be met by wind. It becomes the price setter in that case rather than the price taker. Correct me if I am wrong on that. So, as we increase the amount of wind we use, we increase the number of occasions on which that is the case and we increase the downward pressure on the ultimate price to consumers in that regard.

When you are looking at the issue in the medium to long term as we increase wind, are you aware of any studies that have looked at the overall savings to consumers from the downward pressure on price that wind creates and how much of a benefit that is? Although we have received a lot about how it works, at this point I have not seen any hard figures on what savings are being made by consumers. The point has been made that wind is creating savings for consumers, but the extent of that has not been made clear.

Mr Williams: To be honest, I cannot really answer that. I do not have any evidence that shows it, but I am not disputing it either. The way that the SEM mechanism is set up is quite complex. We do know that wind-generated electricity always runs. It is put on to the system before anything else, so, in that sense, it is not as though it is sitting there idly. If it is available, it is used. I have heard the argument that it can start setting the price. I have heard a counterargument — I am sorry, I do not really know the details — that that might not be a good thing. I am only just throwing this in. I am afraid I cannot give you more evidence on that matter.

Mr Agnew: OK. If you do have more information on that —

Mr Williams: I think it is something that really needs to be looked at.

Mr Agnew: As you say, it is very complex, and it was relatively new to me as a member of the Committee.

Mr O'Donnell: We can certainly check, but I think that Consumer Focus, which is now Consumer Futures, a Scottish organisation, had done some work. We can certainly come back on that. That probably makes sense, because I think that renewable issues were key issues for the Scottish Government.

Mr Agnew: The short-term impact of wind is that for a lot of the time it is the price taker: we are being charged the same for wind as we are for gas and the price of gas is going up, etc. However, if, over the long term, replacing more gas with wind is going to be of benefit to consumers, then your organisation will be interested in not just the here and now but in going forward strategically. That is something that I am still trying to get my head around, and any information on that would be appreciated.

Originally, my concern was that you had to completely replace gas to get the wind price, but, from what we are hearing now, it seems that that is not the case and that, for as long as only the capacity of wind is required, it is the price setter. If that is the case, then increasing the volume of wind is certainly of benefit.

We have raised questions about the profits of wind generators, and the answer that we get back from the industry is that those profits do not take into account the huge investment that they have put in; so we are not really looking at a return on investment. When you look at the costs, the margins are actually quite small. Do you have any sympathy with that argument, or is this just an industry trying to defend what would be seen as abnormally large profits?

Mr O'Donnell: From a consumer point of view, the argument is "If this is the case, show the evidence, the openness and the transparency to back up that fact". We have to reassure consumers that massive profits are not being made at their expense, in profit margins and in returns and costs to capital, and that the risk is balanced across consumers and the industry effectively. It is like everything else. We said at the start of the presentation that this is a very complex market. Consumers will never get to the bottom of it, but there needs to be reassurance that things are fair and that they are paying for the cost of energy.

This is a reasonable request from consumers and organisations representing them. It is good that the debate is even starting. If the industry is dispelling some of the issues around profit margins and is talking about some of the issues that it is facing, that means that we are getting a bit more information than we had previously. So, that is a positive step in the right direction.

Mr Agnew: It is hard enough for us in this room to get our heads around this, so I would not expect consumers to look into the detail. I suppose that we should all consider ourselves to be consumer advocates, and we need to get our heads around it if we are going to perform that role.

If we have time, Chair, I have one quick question.

The Deputy Chairperson: Who am I to say that you do not?

Mr Agnew: The switch from oil to gas was mentioned. When we looked at the renewable heat incentive, the Department told us that in GB, or at least in England, the big switch from oil to gas has been done, and they are now trying to get people to switch from gas to renewables. As far as the best interests of consumers are concerned, and with respect to public subsidy and your advice, should we be encouraging people to switch from oil to gas and then to try to encourage them to switch to renewables, or should we, to some extent, give better incentivisation for renewables for domestic consumers to almost cut out the middle man? We know that the price of gas is only going to go up and that it will continue to do so. Although we will get the odd dip, the overall trend is upwards. Gas will continue to get more expensive. So, looking to the long term, does encouraging people to switch from oil to gas solve one problem but switch it to another problem, which is the price of gas?

Mr Williams: You need to evaluate the costs and benefits to the consumer. In our response to a consultation on the renewable heat incentive, we said that they should not be looking to run incentives at the same time as this. It does not seem rational to do both if you are considering putting gas in. You are creating a wasted cost and a wasted asset, so there needs to be some planning and dovetailing of the two policies.

We are behind gas, because we know what it can provide. With the renewable heat incentive, you really need to look at the costs, and those appear to be quite high now. That is why it seems that so much emphasis is being put on wind. It seems to be a somewhat cheaper renewable option. So, the figures need to be looked at, and planning needs to be done.

Mr O'Donnell: Lord Whitty reflected that dovetailing and the view of gas as the transitional fuel for the next 20 to 30 years to build capacity in the renewables sector and give opportunities for people to build that infrastructure.

Mr Williams: He also said that gas is a good thing as a stepping stone, but there are certain areas that will never be on the gas network. Perhaps those should be the areas that are considered first for renewable heating and the like.

Mrs Overend: Thank you very much for all of the information today. We have got through a lot of questions so far. You talked about how consumers end up paying for benefits for businesses, and I will turn that idea on its head. We heard from manufacturers and large businesses that complained that the tariff for energy efficiency on the electricity bill is only benefiting the consumers as opposed to benefiting the large industries, because they are as energy-efficient as they possibly could be. They said that consumers are the only ones who can access those energy-efficiency programmes and so on. What are your thoughts on that?

Mr O'Donnell: The Energy Bill that is progressing at the moment will place an obligation on businesses, and we have welcomed the fact that that obligation will be extended to the oil industry. So, there is a wider opportunity to provide some support for fuel-poor households. With 42% of homes in fuel poverty, we are concerned that there needs to be a big focus on energy efficiency, and measures to support energy efficiency are paramount. One in two homes spends more than they need to in order to heat their homes, which is a waste of energy. People are using more energy than they need; so, in some ways, that would help to reduce the burden of energy usage, energy generation and energy demand if we can support it. Our view is that those measures should be continued and be focused on ensuring that we try to address the fuel poverty problem that exists currently for so many homes across Northern Ireland.

Mr Williams: Quite a lot of work is being done on measures targeting the fuel poor and on finding out who is in the worst fuel poverty. The University of Ulster has done quite a lot of work on that. That enables better targeting, so that the resources go to the people who need them most. That should continue, and we certainly support it.

Mr Anderson: Thank you, Deputy Chair, and I thank my colleague.

The Deputy Chairperson: Are you sharing time here?

Mr Anderson: As you know, I have to leave to go to another Committee. I have a couple of questions about choice and competition in the electricity market.

We have to welcome competition. It is certainly good for the consumer, and it will, hopefully, knock down tariffs. From looking at the chart, I see that, over the years 2011, 2012 and 2013, changes in supplier peaked in 2012. Is there any reason for that? Is it because of a lack of information out there? I would have imagined that, with good competition here and prices coming down, that would encourage people to change over.

You mentioned the younger element and the older element. I do not know where I sit on that one, but no matter. Could anything be done to encourage the number of people changing suppliers to keep increasing instead of dropping back, as the charts show?

Mr O'Donnell: The market is relatively new to competition for domestic consumers. It is really only in the past two to three years that competition has come in. It took a few years to introduce what they call the "enduring solution" that removed any restrictions on the numbers of people who could switch. Previously, before the systems were in place, there were restrictions.

The problem we see is that only 18% of domestic consumers have switched in the past year, although that compares not too badly with the number in GB. In GB, it is 15%, and at a European level, it is around 6·5%. That is perhaps because the market is quite new and people are not aware of the competition.

We have looked quite a bit at the GB market, because it is probably about 10 or 15 years further down the line from where we are in respect of competition. Lots of things are happening there that could perhaps be prevented from happening in Northern Ireland. There are high levels of mistrust of electricity companies among GB consumers. There is the view that they all act as a pack and put their prices up. What happened in July this year did not help that, with all the electricity companies putting their prices up by the same amount, one after the other. Consumers ask, "Why would I switch, if the company that I switch to is just going to put its prices up by the same amount?". That removes some of the incentive to switch.

Mr Anderson: Or put them up by even more.

Mr O'Donnell: Yes. There is uncertainty about where costs and prices are going to go.

Competition is a good thing. Consumers should drive the market and put downward pressure on costs, which should lead to innovation and improved service standards. However, it is questionable whether that will ever happen given that, in a relatively small market, only 18% of the market is switching. Are consumers ever going to drive effective competition? I know that when the market was liberalised in GB, around 2001, some in the industry said that they expected 40% of consumers to switch — that means switching and then switching back: movement. That is what the industry expected, but we are seeing less than half of that happening. Again, you question whether our consumers are able to drive the innovation, cost pressure and service standards that you need in the market.

We have looked at this. Electricity is not a traditional consumer product. It is something that you only notice when it stops working. The fact is that people have to know what the other offers are and what their tariffs are, and they also have to know what they are on. It is very difficult, sometimes, to compare tariff choices and price per kilowatt, so making tariffs simpler to compare, providing a lot more education and making people more proficient when it comes switching would help to address that.

Mr Anderson: Is there evidence that what people were promised, or what they thought they were being promised, if they switched did not materialise? Is there any evidence that people have switched back from one supplier to another?

Mr O'Donnell: Those who switched found the process satisfactory on the whole and their expectation on savings met. We asked what would drive them to change. A lot of people said that a 10% to 15% saving would make them change. We are seeing that those savings can be made between the highest and the lowest price, but as far as switching back is concerned —

Mr Williams: Power NI advises us that people are switching back but not in large numbers because it is early days.

Mr Anderson: But, some do switch back.

Mr Williams: Yes, we have heard of people switching back.

Mr Anderson: Why would they want to do that?

Mr Williams: We are told that it is based on service standards. Over the past three years there were problems with the switching process. We had quite a number of complaints about that, with a severe spike. We did a lot of work with the companies on that and worked with the regulator on producing a marketing code to give consumers a level of protection.

Mr Anderson: Were those issues resolved?

Mr Williams: I would not like to say that they are totally resolved but we are getting there.

Mr Anderson: Maybe people want to switch for reasons of cost and want to compare like with like. However, if you switch and have big problems, you will probably want to switch back.

Mr Williams: That is what we are being told. Some people come across a problem and say that they are having nothing to do with it, and go back to the people they were with for 20 years.

Mr O'Donnell: The other thing is that tariffs change. If you switch once, that will not to stop you switching again to another company, switching back or switching to another deal. However, if you had a back experience of that switch you may feel that it was too much hassle to you to be bothered even to look at it again. So, you will freeze, not move and potentially be on a worse deal. The fact that people switched once should not stop them from switching again. It is a competitive market, so you can change as you wish.

Mr Anderson: I can understand that. If I wanted to switch, it would be for cost reasons and how much I could reduce my bill. However, if it is a lot of hassle to change, and there is a bad experience, maybe people will decide that they do not want to do that. Word gets out: "I wouldn't do that because it causes so many problems." However, you are telling us today that the initial problems are being ironed out.

Mr Williams: We hope that we are through the worse of that.

Mr Anderson: You are over the worst of that?

Mr O'Donnell: There was an issue with that, definitely.

Mr Anderson: So, we are now over that?

Mr O'Donnell: There are interesting differences between the market here and that in GB. Only 4% of consumers in GB appreciated doorstep selling. According to research that we were shown, and perhaps because this is new, or people are not aware of other suppliers, when someone called at the door to let people know about other suppliers there was not as negative a view of doorstep selling here as there was in the GB market. However, there were issues with some of the other selling techniques that have now ceased, such as shopping centre-type approaches and cold stopping people, which we had complaints about.

Mr Williams: In Europe, there is a big push for competition, and over the past three years they have introduced the IME 3, which are European directives, a large part of which are about consumer protection. We spent the best part of the past year and a half working with the regulator to feed those directives through in practical terms. They cover things such as the number of days it must take for someone to switch. I think it is 15 business days. They also cover cooling off periods, and door-to-door selling and rules around that.

That is very important to us because they had a bad experience in GB with that. Next year, work will be done by the regulator to monitor and enforce those directives. The provisions are in place and we need to take the action against them. Work is being done to try to protect the consumer through that process of the competitive market.

Mr Douglas: You mentioned fuel poverty, and you have the backing of the whole Assembly in trying to address that. When I read some of the papers, it seems that many people in poverty in the Republic of Ireland are subsidised as are some businesses. Manufacturers in Northern Ireland say that it is the opposite here.

You mentioned earlier — it goes back to Sandra's point — the balance between manufacturing, business and domestic consumers. Richard, I think you said that there needs to be a balance. How can we strike that balance? What measures can we take to ensure that businesses and domestic consumers are happy? I do not know whether this has been referenced, but some of the bigger companies that use high levels of electricity are looking to generate their own electricity, and that would take probably millions out of the whole electricity bubble. It could mean that prices could go up in the future because they have to be independent or self-sustaining.

Mr Williams: The electricity market is broken down into different segments. The regulated part is licensed and is not allowed to discriminate between any different class or group of consumers. So, for that to take place, it is an issue that has to be addressed. It is a social issue, not one for the regulator to address. The regulator would follow a line from government essentially, which will decide if one needs it more than another. Fuel poverty is a societal issue, and it is not for the regulator to say, "We will allocate costs this way and that way."

The Deputy Chairperson: Gentlemen, that is all the questions in this session. Thanks very much.