



Electricity Tariff Reform

Call for Evidence Responses
December 2021



About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy, as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs, Markets and Networks. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.



Our mission

To protect the short- and long-term interests of consumers of electricity, gas and water.



Our vision

To ensure value and sustainability in energy and water.



Our values

- Be a best practice regulator: transparent, consistent, proportionate, accountable and targeted.
- Be professional – listening, explaining and acting with integrity.
- Be a collaborative, co-operative and learning team.
- Be motivated and empowered to make a difference.



Abstract

This report summarises and analyses the responses to the Call for Evidence relating to electricity tariff reform in Northern Ireland. We categorise the responses by both key topics, and by question, in order to provide a comprehensive review.

Audience

This document will be of interest to electricity transmission and distribution companies; electricity suppliers; government; energy charities; environmental bodies; and customer groups or organisations, which represent customer interests.

Consumer impact

The evidence gathered from responses to this report will be used to inform our subsequent strategy and decision-making around electricity tariffs.



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Executive Summary

The Utility Regulator (UR) has conducted a call for evidence in relation to the impact of recent developments on Network Tariffs due to how electricity is both supplied and consumed. This report is the first stage of the work required to ensure tariffs are appropriate in the future. This paper summarises the responses from the recent call of evidence. This call for evidence assessed the drivers of change in tariffs; the potential tariff reform options; and sought responses from stakeholders in the Northern Ireland electricity market.

The substantial alignment and common themes across most responses was notable, particularly as the respondents represented a wide variety of stakeholders; from consumer protection groups, through to transmission operators.

We were keen to develop an understanding of which factors the respondents believed had most created the need for tariff reform. In the Call for Evidence report, we identified five 'drivers of change'. These were: distributed energy resources; increasing popularity of electric vehicles; development of battery technology; emerging market for energy aggregators; and digital and data usage. All respondents agreed that the two key 'drivers of change' were: the emergence of electric vehicles; and increased data and digitalisation of the network. These have the effects of changing the demands on the grid - and providing suppliers and consumers with greater access to information to understand their usage patterns respectively. Respondents also confirmed that there were no significant other drivers outside of this list.

Given these 'drivers of change' create pressure for tariff design reforms, respondents were asked 'which' tariff design objectives cited in the Call for Evidence report were most important. These objectives included: cost reflectivity; managing peak demand; simplicity; reducing price volatility; and providing more information to customers. Respondents mainly agreed that cost reflectivity and simplicity should be prioritised, to create fair and easy to understand structures. Individual respondents also prioritised other objectives, although these additional priorities were not common between multiple respondents. It was also highlighted that to fully understand the impacts of tariff reform it is important to give consideration to the full end-to-end system.

The final key theme that emerged from the responses was the need to prioritise vulnerable customers. Respondents believed that the reforms should protect this group of consumers, by ensuring they do not experience either high bill volatility or large bill increases. The respondents also agreed that as the energy transition progresses, further steps should be taken to involve vulnerable customers in the reform process, and increase their market engagement through education about the market.

1. Introduction

Context and background

- 1.1 We conducted a call for evidence in relation to the impact of recent developments in how electricity is both supplied and consumed.
- 1.2 In the Call for Evidence report, we summarised the key issues associated with this transition; and analysed the mechanisms that could be used to reform tariff structures. By way of a brief summary, the report covered:
- a) the drivers of change;
 - b) tariff reform options;
 - c) approaches to managing the transition;
 - d) customer engagement; and
 - e) other challenges and risks.
- 1.3 Following the publication of the report, we invited stakeholders to share their views on each of these key issues raised in the Call for Evidence. This subsequent report provides a summary and analysis of those responses.

Objectives of this report

- 1.4 The purpose of this report is to gain an understanding of the issues that are important to the stakeholders involved in the Northern Ireland electricity market. Collecting their views allows us to understand each stakeholder's priorities; and make sure that every interest group is appropriately represented. Without consultation, there is a risk that some groups would not be able to express their opinions, and so decisions would be taken without full knowledge of their preferences.
- 1.5 We have used these responses to understand the priorities that are shared by all respondents, as well as the areas where there is disagreement between groups. Having a thorough understanding of these issues when deciding upon tariff structures means that they can be designed to meet common priorities and informed decisions can be taken where trade-offs are required.

Who were the respondents

- 1.6 We received nine responses to the Call for Evidence. These organisations included consumer protection groups; trade associations for demand side units; transmission system operators; and electricity providers. Other responses were received, but they did not address the questions that were asked in the Call for Evidence.
- 1.7 Respondents were asked about their views on the issues raised in the Call for Evidence report. Given the range of expertise across all respondents, their responses provided us with insight on these issues across the electricity market, from suppliers through to consumers. This meant that the selection of responses we received reflected (to some degree) most stakeholders in the electricity market.

Key findings

- 1.8 There was overriding agreement that the issues proposed in the Call for Evidence were relevant and important. Although some additional factors were identified by the respondents, these were not drastically different from those contained in the Call for Evidence, and fell into the same broad themes. It is also noticeable that no topics excluded from the Call for Evidence were raised by multiple respondents.
- 1.9 Respondents agreed on two primary key priorities of any tariff reform – cost reflectivity and simplicity. Cost reflectivity is important, because achieving it can help ensure that the tariffs set for system use are fair and efficient. Customers only pay the cost that they impose on the grid. Tariffs that are not cost reflective result in some users' cross-subsiding others. Under the current system, consumers who rely solely upon the grid for the electricity they use are cross-subsiding micro generators who do not pay for their use of the grid when they export and create additional grid costs. Simplicity is important in helping consumers to understand the purpose of tariff structures. Consumers are more likely to receive and act upon signals when they are sent by simple and easily seen and understood tariff structures. This means that they are better at achieving behavioural change.
- 1.10 Respondents agreed that there were two key drivers of change – electric vehicles (EVs); and data and digitalisation. EVs will increase the electricity demand placed on the grid. Data and digitalisation can increase the information available to both consumers and suppliers. Gaining access to this additional information can improve the understanding of how the network is used. It also operates to communicate network costs and signals more effectively to consumers. This should allow tariff design objectives to be met more successfully.

- 1.11 The final common theme respondents shared was the need to prioritise vulnerable customers. Respondents agreed that tariff changes should protect this group, both from absolute bill increases and volatility in bills. In addition to designing tariffs to protect these groups, the respondents agreed that engagement programmes should be developed to help to improve vulnerable customers understanding of the market.

Report structure

- 1.12 The remainder of this report is presented as follows.
- Section 2 analyses the responses by the topics identified in the Call for Evidence report. It pulls out the key themes that have emerged from these topics, both where there is consensus and disagreement between the respondents.
 - Section 3 analyses the responses by question. It covers each question that was asked in the Call for Evidence, and provides an in-depth analysis of the responses received. For each area of questioning, responses are pooled, and the answers to these questions are discussed.
 - Section 4 is the concluding remarks. We revisit the overarching themes, highlighting the important areas that have emerged.

2. Key themes by topic

- 2.1 This section analyses the key themes that have emerged from the Call for Evidence responses. Responses are sorted into the major topics they address. These topics, which are explained in the Call for Evidence report are: drivers of change; tariff reform options; approaches to managing the transition; customer engagement; and other challenges and risks.
- 2.2 For each of these topics, we also explore the areas of agreement and disagreement between the respondents.

Drivers of change

- 2.3 In the Call for Evidence, we sought to garner the respondents' views on the relative importance of each of the 'drivers of change' that we identified in the report and determine whether there were any other drivers that we had not considered to be in the scope that they considered highly important.
- 2.4 In the Call for Evidence report, we identified five key 'drivers of change'. These relate to low carbon technologies that have caused the energy transition.
- (i) **Distributed energy resources.** This is the growing uptake of renewable energy generation at all levels including businesses and domestic consumers. It has impacted upon the demand patterns faced by the grid operator. Consumers have begun to use more self-generated power, and also have the potential to export this power to the grid and sell to other consumers.
 - (ii) **Increasing popularity of electric vehicles (EVs).** As more vehicles become EVs, this will place additional demand on the grid, as drivers seek to charge their batteries. However, these batteries could also provide storage facilities when excess electricity is produced, meaning that EVs could act as both an asset and a liability to the grid. It will become important to understand how they impact demand patterns.
 - (iii) **Development of battery technology.** Batteries will provide the potential to store electricity when there is excess supply and distribute it to areas of high demand. This should enable the uptake of renewable technologies to increase, as batteries can hold these supplies until there is excess demand. However, the current cost of battery technologies is high. Therefore, it could take time for widespread use to become viable.

- (iv) **The emerging market for energy aggregators.** Aggregators are third party intermediaries, who coordinate and aggregate the demand of individual consumers. They alter consumer demand at strategic times in order to alleviate the pressure on the grid.
- (v) **Increasing digitalisation and data usage.** This enables more granular monitoring of usage patterns, and customers to be presented with accurate real-time billing information. This allows new tariffs types to be introduced, which can impact upon consumer behaviour. An example of this technology is smart metering.

2.5 The respondents were in agreement that all of these were important factors. However, they identified the increasing popularity of EVs, and data and digitalisation as the two most important factors. The Consumer Council for Northern Ireland and Northern Ireland Electricity Networks (NIE Networks) identified EVs, because they will significantly increase the volumes of electricity consumed (and the change the times when peak consumption occurs). The Consumer Council for Northern Ireland, Demand Response Association of Ireland (DRAI) and National Energy Action NI (NEA) identified increasing digitalisation and data usage, because the technology will provide households with real-time information on their consumption profiles. This will improve each household's ability to understand and manage their energy demand patterns, enabling consumers to adapt their usage in order to reduce electricity bills as much as possible. For low-income households, this will be especially important. Another benefit of data and digitalisation improvement is that it gives network owners more information on how their systems are used. This should improve their understanding, allowing them to make more informed decisions. In turn, this should facilitate them operating their systems more efficiently. Smart meters were cited as the specific technology most likely to enable this. Respondents believed these were the key drivers both for the transition as a whole, and specifically Northern Ireland.

2.6 The respondents also identified two other 'drivers of change' *that were not included in the Call for Evidence report*. The first was that electricity consumption would rise, due to greater uptake of low carbon technologies. This has similar consequences to EVs, but NEA, Power NI and the Consumer Council for Northern Ireland believe that the scope should be expanded to include the electrification of heat. Wider use of heat pumps will greatly increase the electricity consumed by households. In addition, NEA identified the increased level of homeworking caused by Covid-19.

Tariff reform options

- 2.7 Before determining specific tariff reform options, it is important to re-cap the ‘in principle’ outcomes that reform may be intended to achieve. The tariff objectives we considered as important in the Call for Evidence report were:
- (i) cost reflectivity;
 - (ii) managing peak demand;
 - (iii) simplicity;
 - (iv) reducing price volatility; and
 - (v) providing more information to customers.
- 2.8 We asked respondents which of these factors they considered to be most important. Almost universally, they agreed that cost reflectivity and simplicity should be the priorities. Cost reflectivity ensures that each consumer pays the cost they impose upon the grid. This means that costs are recouped fairly, and cross-subsidisation is avoided – if consumers pay the cost they create, they are not paying extra to cover costs imposed by other users (generally this principle is also consistent with pricing being ‘efficient’). Simplicity and transparency assists customers, and makes their tariffs and bills easier to understand. This better understanding means that they are more likely to respond to signals they receive. As a consequence, simple tariffs are usually more effective in terms of eliciting intended behavioural change.
- 2.9 In addition to this, there were certain objectives that some respondents considered important, but others did not. By means of a summary, consumer protection groups unsurprisingly preferred options that gave customers predictability and stability. For example, the Consumer Council for Northern Ireland and DRAI responded that reducing price volatility was important. This would be advantageous for customers on low incomes, as it would make their bills more predictable and help ease of budgeting. Contrastingly, NEA thought tariff flexibility should be prioritised in order to enable the mass uptake of low-carbon technology.
- 2.10 There was one common objectives that the respondents shared, which was *not* included in the Call for Evidence report. Specifically, respondents felt it is important for future tariffs to ensure that micro-generators fully contribute to the cost that they impose upon the grid. Current tariffs are structured so that a significant proportion of the bill is generated by the volumetric component. This means that micro-generators underpay and are subsidised by small, low-quantity, users, who are often vulnerable customers.

Approaches to managing the transition

- 2.11 Within the Call for Evidence report, we discussed the options that were available for transitioning from the existing tariff structure, onto the reformed system. In the simplest terms, the options for this transition can vary from a very quick switch from the old structure to the new; or a gradual change over time (where consumers are 'eased' onto the new structure).
- 2.12 The benefits of a short transition period are that the reforms are operative quicker; and the changes are simple for consumers to understand. They only have to deal with the old and new structures – there is no grey area, where a combination of the two is operative. However, a slow transition has the benefit of giving consumers more time to adapt to the changes. Some changes may take time to adapt to. For example, significant billing variations, or reforms that require / encourage behavioural adjustments. Having longer to get used to said reforms gives consumers, particularly those who are vulnerable or on low incomes, a better opportunity of not being adversely impacted.
- 2.13 Although respondents reached the consensus that vulnerable customers should be prioritised during the transition, they disagreed over the best way to achieve this. Most consumer advocacy groups believed that the transition period should be gradual. This would allow time for consumers to become educated and informed about the new pricing regime, and to make any subsequent behavioural changes necessary. However, NIE Networks argued the timeframe should be as short as possible. Their logic was that this would realise the maximum benefit from the changes to contribute towards the 2030 environmental targets. DRAI suggested a hybrid approach: a short transition period for large customers who could withstand the shock, and a slow transition for smaller, vulnerable customers.

Customer engagement

- 2.14 Customer engagement is defined as an awareness of the different aspects of the electricity market; and active participation in the market. For example, customer engagement could involve proactive information/advice about new tariff structures, or switching tariffs.
- 2.15 We were interested in understanding each respondent's view on the existing level of customer engagement in the Northern Ireland electricity market. The respondents agreed that customers are not particularly engaged in the electricity market, either with respect to energy usage, or tariffs. Respondents' placed different emphasis in relation to which customer groups are most disengaged. NIE Networks responded that larger customers are generally more engaged, whilst SMEs and domestic customers are

disengaged. The Consumer Council for Northern Ireland highlighted that customers with lower levels of educational attainment have lower engagement, because they find it harder to understand the electricity market. The Consumer Council probably considered the sample of disengaged customers to be less than NIE Networks considered it to be because the Consumer Council's sample of total customers in the market is smaller. NIE Networks considers the market to include both domestic and commercial customers, whilst the Consumer Council for Northern Ireland is primarily concerned with domestic customers.

- 2.16 All respondents believed that it is important to roll out programmes that improve engagement. There are a number of steps that they suggested need to be taken to achieve this. The first is education. It is important that consumers understand the market, so that they have the necessary knowledge to engage in the transition and make informed decisions. To ensure education programmes are pitched at the correct issues, respondents forwarded that research should be undertaken, to help to understand the causes of disengagement (and any underlying societal drivers of these). Alongside education, respondents told us it is essential to maintain good information flows between customers and market operators. This will allow customers to understand their usage, and billing rates; and operators to understand how they can best maximise value for the customers. Respondents believed that the most effective way to deliver information to customers was to keep it simple.
- 2.17 Finally, respondents agreed that for the transition to be successful, it is important that customers are engaged throughout the process. Engagement should be conducted with individual customers; focus groups; representative bodies; and through market research. Including all these bodies is essential to make sure that all factors important to consumers are taken account of. Ensuring it occurs in an early, transparent and accessible manner is key to building up trust in the process. Respondents further told us that the process should be constructed so that customers feel that their feedback is valued and acted upon - to encourage further participation.

Other challenges and risks

- 2.18 This section considers the responses to relevant factors that fall outside the scope of the above topics. We explain each of these further factors proposed by respondents in the following bullets:
- (i) **Absence of smart metering.** Northern Ireland has significantly reduced smart metering coverage compared to other jurisdictions. This prevents the real-time transfer of information for domestic consumers, which means that certain

tariff options are unavailable as reform choices. It also means that Northern Ireland may not be able to achieve certain energy saving benefits.

- (ii) **Higher connection charges than other jurisdictions.** NIE Networks submitted that, in Northern Ireland, there is a connection charge policy that results in customers paying a significantly higher proportion of the distribution costs than in neighbouring regions, such as Great Britain and the Republic of Ireland. This is because the full connection charge, which includes charges for network reinforcement, is levied upon these connecting customers. This contrasts with other regions, where connecting customers pay an upfront charge for connecting their assets, but only a proportion of the reinforcement costs with the remainder being paid for through tariffs by all customers. NIE Networks argued in their response that these higher connection charges in Northern Ireland discourages customers from purchasing LCTs.
- (iii) **Northern Ireland has a large number of small scale generators.** The volume produced by their uncontrollable small scale renewable generators is very high in proportion to total system demand. This creates a challenge of how to ensure system security, whilst also harnessing the environmental benefits that these small generators create.
- (iv) **Northern Ireland has unique electricity demand.** The Consumer Council for Northern Ireland cited research that suggests that Northern Ireland has a combination of peaky demand, and a low population that consumes a disproportionate amount of electricity on low voltage networks. This means that Northern Ireland has *both* more areas that are vulnerable to supply interruptions; and heavy demand on fossil fuel electricity generation that could make the transition more challenging.

2.19 In addition to the above factors that are unique to Northern Ireland, it is important to consider the risks associated with tariff reform. Although the Call for Evidence is focused on distribution tariff reform, Power NI was keen to point out in its response the issues that can be created from only focusing on this area. To fully understand the impacts of tariff reform, they proposed that it is important to give consideration to the full end-to-end system.

3. Themes by question

- 3.1 Rather than focusing on how the responses address the key themes (as per Section 2), this section explores the contents of each response on a question by question basis.
- 3.2 This section is intended to build upon Section 2 by discussing the additional details contained within the responses to each question that did not fit neatly under the key themes. Section 3 is broken down into the eight topics. All thirty questions that were asked in the Call for Evidence are covered under one of these eight topics.

Drivers of change: the role of aggregators

- 3.3 The role of aggregators is to moderate the electricity consumption of a group of consumers, to suit the total electricity demand on the grid. They act as an intermediary for a group of consumers who wish to sell excess electricity that they produce to the grid.
- 3.4 Respondents generally believed aggregators are important in providing consumers with flexibility. By altering demand at strategic times, aggregators can reduce pressure on the network, optimising its use. This can reduce network costs. Respondents believed that consumer awareness of aggregators is low at the present time, so they are used less than they could be. However, as the uptake of LCTs increases, respondents argued that aggregators will have a vital role to play. They will balance the difference between electricity demand and decarbonised supply.
- 3.5 To allow for more extensive use of aggregators in the future, respondents believed that it is essential to increase the use of data and digitalisation. This is in order to help them gather the correct information, to determine the market supply and demand conditions (respondents further suggested that, in turn, this means smart meters are required). This will enable the aggregators to monitor demand and provides consumers with incentives to change their behaviour and enable effective market operation. This should increase the stability and security of the system without increasing the cost of operating it.

Drivers of change: digital technologies

- 3.6 Digital and data technologies enable improved monitoring; the transfer of more granular information; and better billing capabilities. Smart meters are a specific digital and data technology used in the electricity sector. They provide real-time consumption and pricing information; and allow the grid to be operated more efficiently.

- 3.7 Respondents believed that digital and data technologies should be used to send customers pricing signals. This facilitates demand management that should enable the increased uptake of LCTs. Given these technologies provide customers will more accessible real-time information, they should find locating the most competitively priced tariffs is easier, potentially reducing their electricity bills.
- 3.8 Respondents argued that technology could also provide network operators with improved information that should allow them to build better models and demand forecasts. This should reduce network costs. However, Power NI was concerned that with the increased access to customer information, there is a greater risk that it could be used to manipulate customers, and might heavily penalise slow adopters. Therefore, they suggested, it is essential that adequate protections are in place to ensure customers who are unable to adapt quickly are not punished.
- 3.9 Although smart meters are not currently used in Northern Ireland, Bluetooth keypads are in place for some households. This technology transfers information between the meter and a smartphone. Although it is an interim solution, most respondents do not believe that it would be an adequate solution in the long-run. For example, the Consumer Council for Northern Ireland believes that the keypad does not provide customers with adequate live information, and often excludes low income, vulnerable customers.
- 3.10 In light of the above (i.e. the absence of smart meters) respondents were asked if reforms should not be made until said technology was installed. The respondents' opinions varied. NIE Networks and SONI believed that it depended on the changes. They thought it was not appropriate to roll out structures, such as time-of-use tariffs, that were reliant upon real-time information. Along with DRAI, these respondents believed that changes *could* be made, but only as the new technology became available to customers. NEA and the Consumer Council for Northern Ireland also supported this, but believed that vulnerable customers should be prioritised in the technology roll-out.
- 3.11 Instead of focusing on the specific question, Power NI offered an opinion on the approach that should be followed to determine tariff change. They believed that as suppliers translate network tariffs into end user tariffs, suppliers and customers are the two parties that are most impacted by tariff reform. Therefore, any approach to reform tariffs should be customer led, but also implementable by the suppliers who have a contractual relationship with the customers.

Tariff reform options: economy and efficiency

- 3.12 As we set out in Section 2, the key objectives of tariff design identified in the Call for Evidence report were: cost reflectivity; managing peak demand; simplicity; reducing price volatility; and providing more information to customers. Respondents mainly viewed simplicity and cost reflectivity as the most important factors from this selection. Respondents further believed that ensuring micro-generators paid the full cost they imposed on the grid was the most important factor outside of this list.
- 3.13 We were also keen to find out the respondents' views on whether we should consider economy and efficiency as key factors. Opinions varied significantly on this issue. Power NI, NIE Networks and NEA believed these *should* be key priorities, provided that they did not compromise our statutory duty to protect consumers, both financially and the environment they live in. This contrasts with the Consumer Council for Northern Ireland, who believed *consumer protection* should be prioritised above economy and efficiency. DRAI and SONI responded that we should balance all of its statutory duties, instead of focusing on specific factors.

Tariff reform options: tariff design

- 3.14 This section focuses on the factors that the respondents believed the reformed tariff structures should prioritise. This relates to which costs the tariffs should reflect.
- 3.15 It is important to note at the start of this section that the respondents believed that under existing conditions only tariffs based upon overall network demand can be implemented. There is not currently the technology in place to measure individual usage in real-time. This means that implementing tariffs that are based upon individual demand is not an option that is realistically achievable now – it is instead a future ambition.
- 3.16 We asked the respondents whether it was preferable, when it is technologically possible, for tariffs to be a reflection of individual demand or overall network demand. The respondents largely agreed that tariffs should balance these two objectives. That is to say, respondents suggested tariffs should be based upon individual usage, where consumers have the ability to adjust the volume and time of consumption. When consumers are vulnerable and cannot change their volume and time of consumption, the respondents believed that tariffs should be based upon overall network demand. This mixed approach would allow peak demand to be managed by encouraging consumers to use the grid in the most efficient way possible, but also ensure that low income consumers are properly protected during the transition.

- 3.17 When considering tariff designs, it is important to consider whether they should be cost reflective. All respondents believed that tariffs should be as cost reflective as possible. During the transition, the number of micro-generators has increased. Respondents told us that this has created a problem. This is because micro-generators pay reduced volumetric charges, as they produce some of their own electricity; but impose full fixed costs on the grid, as these are not proportionate to consumption. As fixed costs make up a greater proportion of network costs than the fixed component of tariffs does of the total bill, respondents told us these customers currently underpay. NIE Networks, the Consumer Council for Northern Ireland and SONI all state that a reformed structure should account for micro-generators to address this issue. They believe micro-generators should pay for the cost that they impose upon the grid, and no longer be cross-subsidised by other consumers. NIE Networks believed this could be done by increasing fixed charges and reducing volumetric charges, whilst the Consumer Council for Northern Ireland thought bills could be separated into various components, including energy used, transmission costs, distribution costs, and other charges.
- 3.18 Implementing digital technology would help new tariff structures to achieve this cost reflectivity. Respondents were asked how much a reformed system should rely upon this technology. NIE Networks and SONI believed technology should be used as much as possible, as it enables the most efficient operation of the grid. This data helps operators with demand management. By varying price at critical times, customers can be incentivised to reduce consumption where their marginal utility is less than the marginal cost. However, increased access to data does put customers at greater risk; accordingly, both SONI and the Consumer Council for Northern Ireland responded that robust protections should be implemented. This would include enforcing high standards for data collection, and offering additional help to those consumers who struggled to adapt to the digital transition.

Approaches to managing the transition: the transition period

- 3.19 Transitioning from one tariff regime to a new one can be disruptive for consumers. It also creates added uncertainty. Under an existing system, they have historic data to help predict what their bills will be, but a new system means there will be no precedent to rely upon.
- 3.20 One of the most significant changes that could occur would be large bill increases. We therefore asked respondents for their views on whether consumers should be protected from large increases and, if so, how long should this protection last. Most respondents believed that necessary protections should be put in place, if evidence suggested that reforms would

have a sudden / large impact upon customers. SONI, however, suggested that if customers experienced significant bill changes (that they could not respond to) then the reforms themselves should be reviewed. They argued the purpose of price signals is to achieve behaviour changes. If customers either cannot or will not respond to signals, then the signals may be inappropriate or the opportunities and mechanisms for consumers to change are too limited.

- 3.21 Given we understood from earlier responses that most of the respondents favoured a more gradual transition, we wanted to understand their views on how this could be achieved. We asked respondents about their opinions on various mechanisms that could slow the transition period and protect consumers.
- 3.22 One way to manage the transition is to limit the scope of the reforms. We asked the respondents whether they thought the reforms should apply to all customers, certain subgroups or a proportion of the customer population. Most respondents felt that the size of the group should depend on the specific reforms and the targeted outcomes. They argued that analysis should be undertaken to minimise the number of customers who are adversely effected. SONI had a different philosophy, arguing for a more practical approach, where the groups for whom the changes would be simplest should be targeted first. The Consumer Council for Northern Ireland responded that in an ideal scenario all customers would transition at once to ensure maximum fairness and protection. They argued that divergence from this approach would need strong justification.
- 3.23 Another approach we asked the respondents about was opt-in / opt-out. In general, most felt they would only be able to offer an opinion on this after analysing the propose changes in detail. However, NIE Networks was strongly opposed to opt-in / opt-out, arguing it would create uncertainty for customers and reduce the impact of the changes. The Consumer Council for Northern Ireland had a contradictory opinion – they thought mandatory roll-out should only be used when there was certainty that all consumers had access to the necessary technology, information and support.
- 3.24 We also asked respondents about their opinions on offering consumers a range of reformed tariff options to choose from. NIE Networks and the Consumer Council for Northern Ireland both had similar views on this transition mechanism to opt-in / opt-out. NIE Networks believed too many options would make tariff signals confusing for customers, whilst the Consumer Council for Northern Ireland believed consumers should be given options, to avoid them being forced to conform to a ‘one size fits all’ approach. SONI revealed they are currently investigating the viability of this option, although they are yet to receive results from their work.

- 3.25 As part of the Call for Evidence, we asked respondents to suggest any other approaches that they considered appropriate. NIE Networks suggested a mandatory approach could work well. Although the Consumer Council for Northern Ireland and SONI did not suggest specific approaches, they said that whatever is used needs to incorporate impact monitoring and customer engagement processes along with checks to ensure that price signals work holistically with other components that contribute towards the final price consumers are charged.

Approaches to managing the transition: monitoring the success of reforms

- 3.26 One of the aims of the Call for Evidence was to explore how different tariff designs could modify consumer behaviour. As other questions in the Call for Evidence established that price is an effective factor, we asked respondents if they could identify *other* tools that could change their behaviour. They thought that outside of price, consumers could be influenced by altruistic and ethical factors. The most common of these is environmental concerns. Respondents believed that consumers would reduce usage if they thought it would tackle climate change.
- 3.27 Assuming the reforms used both price and ethical concerns as mechanism to influence consumer behaviour, we asked respondents how they would monitor the impact these tools had. Monitoring is important, in order to understand if the reforms have been effective. In the Call for Evidence, we suggested a range of monitoring options that could be employed. These include: surveys; analysis of complaints; billing questions; and usage monitoring analysis. We asked the respondents which of these factors they thought would be most effective. With the exception of NIE Networks, who did not believe any would provide useful monitoring information, all other respondents believed these options would accurately capture the impacts of the reforms. They stated that to be most effective, monitoring groups should be constructed from a diverse range of customers, to ensure that all backgrounds were adequately represented.

Customer engagement: how to educate customers about the electricity market

- 3.28 Respondents agreed that customer engagement was low. This was particularly the case for SMEs, domestic consumers, and those with a lower level of educational attainment.
- 3.29 To improve engagement, NIE Networks suggested that consumers should be provided with high quality information about their usage, which is easy for them to understand. Specifically, they suggested obliging suppliers to mirror

DUoS tariff structures in their retail tariffs, to provide consumers with greater transparency. This has already been done successfully in Ireland.

- 3.30 Respondents suggested that disengaged consumers should be educated on the market to improve their understanding of it. This would make it more accessible for them. To ensure this is beneficial, respondents argued it is vital that research is undertaken to identify the specific drivers that make the electricity market hard for these customers to understand, and to help identify the factors that led customers to become disengaged.
- 3.31 Respondents further told us that it is important customers are engaged *throughout the process*. Ensuring this occurs with a variety of individual customers (and their representative bodies) is crucial to make sure that the views of all consumers are represented and taken account of.

Other challenges and risks: international approaches

- 3.32 This section investigates the international experiences respondents viewed as relevant to Northern Ireland. They were asked whether they thought there were other countries (who had recently tried to reform their tariff structures) that might provide helpful examples / evidence, to inform our approach. Ideally, these examples would be from jurisdictions whose energy markets could be closely compared to Northern Ireland.
- 3.33 NIE Networks believed that Great Britain is a good example. Ofgem began their tariff reforms a few years ago, with information on them available in the Targeted Charging Review¹ and Access and Forward-looking Charges Significant Code Review². EAI notes that Eurelectric will publish its report on efficient network tariffs in October.
- 3.34 Respondents also noted a couple of other significant points in their responses. Highlighting that distribution tariffs only make up a small proportion of each customer's total bill is the most important of these. Therefore, it is unrealistic to expect changes to distribution tariffs to have a substantial impact on market demand. However, respondents also believed that, despite this, it is important to ensure the reforms are transparent. This includes ensuring that long-term signals are clear; and that cost data is accessible. The cost data should show both how we plan to recover cost and how it will be passed through to customers.
- 3.35 Finally NEA responded that additional distributional analysis should be undertaken, before the reforms are implemented. The analysis would

¹ 'Targeted charging review: decision and impact assessment.' TCR; Ofgem (2019)

² 'Access and Forward-looking Charges Significant Code Review.' Master publications library; Ofgem (2021)

assess the impact of the reforms across different income groups. Particularly important areas of this preparatory work would be to ensure all groups have equal access to the reformed tariffs, and that social tariffs are in place for vulnerable customers.

4. Conclusion

- 4.1 In summary, it is clear that respondents believe that the issues raised in the Call for Evidence report cover the significant developments in the electricity market that have create the need for tariff reform at this time. All respondents identified the same drivers of change as being responsible for the need to reform tariffs. They also agree on the objectives that should be prioritised, when new tariff options are considered and, ultimately, selected.
- 4.2 We are appreciative of the responses received, which will help us make more informed decision on how best to facilitate the transition, via tariff reform. The responses further allow us to better understand each stakeholder's priorities and primary concerns.