

Power NI Supply Price Control 2025

Utility Regulator Approach Consultation

Power NI Response

20 December 2023



Introduction

Power NI welcomes the opportunity to respond to the Utility Regulator's (UR) Approach Consultation to Power NI Supply Price Control 2025. Power NI recognises that the Supply Price Control is of fundamental importance to the Utility Regulator vis-a-vie its statutory duty to protect consumers and promote electricity retail competition; and to Power NI in ensuring that it is able to finance the operation of the business, compete in a liberalised market, meet customer demand for digitisation and prepare for the energy transition.

In determining the various elements of the Price Control, it is important that an appropriate balance is reached to ensure that all the requirements of a price control are met. Power NI is committed to working constructively and transparently with the UR to reach such a balance.

Since the last full control was completed, both the market and the Power NI business has changed significantly; it will be important that the UR recognises that the context is therefore entirely different and that there will be limitations as to the effectiveness of historic information as a proxy for the future of the business.

Specific Questions

Q1. Do respondents agree with the proposed scope and coverage of the Power NI price control? If not, please explain what you believe the scope and coverage should be, providing suitable evidence to demonstrate.

Power NI response:

Power NI believes the scope and coverage of the price control outlined in the Approach Paper is appropriate for the market conditions at this time.

Q2: Do respondents agree that a duration of four years for the next Power NI price control is appropriate? If not, please explain what you consider the appropriate duration should be and why.

Power NI response:

Any price control that is for multiple years, will always carry a forecasting risk in relation to expected costs, market conditions and business context. While in principal Power NI would be prepared to consider a four-year duration to the next price control period, Power NI need to understand what the detail behind the UR statement "we will consider whether it is appropriate to introduce risk cost sharing mechanisms to reduce the impact of that increased risk". This could be an important risk mitigant and therefore Power NI will need to understand the mechanics which would therefore facilitate a longer control.

While a longer control provides greater certainty, and Power NI supports this rationale in considering a 4-year control; the UR refer to the price control period aligning to that of gas

suppliers. In the Northern Ireland market there are little similarities between gas and electricity suppliers, and therefore Power NI consider 'alignment' not to be an appropriate rationale.

Power NI would welcome further engagement with the UR in relation to the proposed four-year time horizon.

Q3: Do respondents consider that the existing structure and form remains appropriate for the next Power NI price control? If not, please explain what you believe the structure and form should be.

Power NI response:

The structure and form outlined by the UR is standard for price control review and Power NI are content with this approach.

Q4: Do respondents consider the approach outlined for assessing the Power NI OPEX is appropriate at this price review? If not, please explain what approach you consider UR should take to assessing OPEX and the reasons why.

Power NI response:

Power NI welcomes the UR's position that it will adopt a proportionate approach to the assessment of OPEX allowances. Power NI strongly believes that it is an efficient supply business and will be able to demonstrate this through both the data submissions requested by the UR, external benchmarks and evidence from market position.

The UR appears to be placing significant weight upon the use of historical trend analysis as evidenced by references to such analysis in all of the potential approaches described. While Power NI understands the need for a historical perspective, it is important to recognise that the energy market and therefore the Power NI business, has changed significantly since the last control.

In addition, with the publication of the Government's Energy Strategy alongside mandatory targets and increasing ESG requirements, the energy industry is going to transform further through the control period. The UR must be cognisant of these changes when making OPEX determinations. Power NI should be in a position where it can adequately meet the needs of consumers both today and in the future. This evolution, in line with government policy and the UR's statutory duties, requires that all customers are well serviced. This means that some, perhaps more expensive service methods are retained (to ensure no one is left behind) but also new and innovative digital solutions are piloted and brought to market. This requires Power NI to research and develop new products and services. It also requires CAPEX spend. This type of approach is fundamentally different to historic price controls which were set against a more rigid and predictable backdrop. This therefore may require the UR to adopt similar approaches to those being used in the NIE Networks RP7 Draft Determination i.e. recognising the need for some re-opener flexibility.

Power NI was somewhat surprised by the UR's consideration of moving Bad Debt and Printing, Mailing & Payment Agents costs to an Et term. Power NI would welcome specific engagement with the UR in relation to these matters. While to some degree, an Et term manages Power NI's risk of volatility in these areas; the exclusion from St removes the incentive to outperform allowances (which are subsequently harvested in the interests of customers), a core principle of the incentive based regulatory framework in place in Northern Ireland. Power NI are keen to discuss the rationale and potential mechanics which the UR envisages in their considerations.

Q5: What are respondents' views on the proposed approach to establishing a margin for Power NI?

Power NI response:

As the UR has correctly stated the Power NI allowed margin was last substantively reviewed for the 2014-2017 control period. Since this time the market has undergone fundamental change through the implementation of the I-SEM trading arrangements. These arrangements place significantly greater financial pressure on the business both in terms of required collateral and cashflow.

Additionally, in recent years the electricity sector has witnessed seismic shocks and extreme volatility. In order to operate adequately in the marketplace and continue to service customers, Power NI must be able to finance its operations. Power NI have and continue to argue that the current allowance does not meet those requirements and is insufficiently flexible to deal with shocks. In short, Power NI relies upon the support of its parent Group, a situation which is not aligned with regulatory obligations.

It is imperative that the UR adequately assess and set the margin requirement appropriately. As has been witnessed in the GB market, significant market disruption can be caused by inadequate determinations, disruption which ultimately results in avoidable increases in costs to consumers over the medium and long term.

Within the Approach Paper the UR has stated that the decision will be in line with the SPC25 Determination however as the UR is aware the committed review remains an outstanding item from the last extension.

Timetable

Within the Approach Paper the UR also describes the timetable for the completion of the Power NI Supply Price Control 2025. Power NI would like to take this opportunity to highlight that the timetable published is extremely optimistic. As has been described earlier, the context and backdrop of this control alongside the changed landscape since the last control, mean that historic information will be of limited value. In addition; the significant policy, market and customer changes the business will face during the tenure of this control period will require careful consideration.

Power NI is committed to working constructively and transparently with the UR Team to fully assess the needs of the business going forward and reach the reasonable outcomes described above. As has already been discussed with the UR, the Business Plan Questionnaire is of critical importance and will need to be worked through in detail in order to support assessment. The format and supporting explanatory narrative will be an important basis for engagement and will need to be collectively worked through.