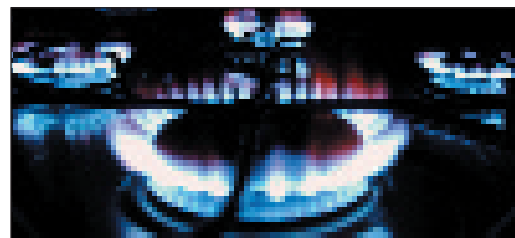
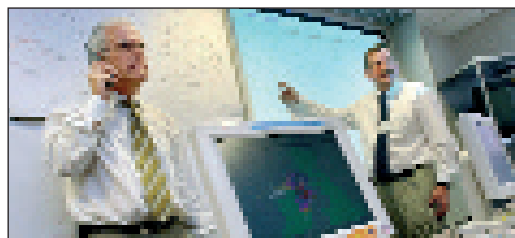


# Northern Ireland Authority for Energy Regulation

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# ANNUAL REPORT 2004/05

of Northern Ireland Authority  
for Energy Regulation

Laid before the Northern Ireland Assembly in accordance  
with Article 6 (4)(a) of the Energy (Northern Ireland) Order  
2003 by the Department of Enterprise, Trade and Investment

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Northern Ireland Authority for Energy Regulation



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## To: The Department of Enterprise, Trade and Investment

I enclose the Northern Ireland Authority for Energy Regulation's (the Authority) Report on its activities including a general survey of developments in respect of matters falling within the scope of its functions for the year ended 31 March 2004 as required by Article 6 (4) (a) of the Energy (NI) Order 2003. As this report is in respect of the first year of operation of the Authority for which no Forward Work Programme existed I am not in a position to comply with para 6 (2) (b) of the Order. Future reports will however address this matter.

I confirm on behalf of the Authority that during the period of this Report,

- i) The Authority made no references to the Competition Commission.
- ii) The Authority made no final or provisional Orders and imposed no penalties under Part VI of the Energy (NI) Order 2003; and
- iii) The Authority received no general directions under Article 50(2) of the Electricity (Northern Ireland) Order 1992 or under Article 27(2) of the Gas (Northern Ireland) Order 1996.

**D B McIlldoon**

**Chairman: Northern Ireland Authority for Energy Regulation**





## The Chairman's Report

### Statement from the Chairman of the Northern Ireland Authority for Energy Regulation

I began my report last year lamenting the rise in fuel prices. And just when we thought they could get no worse, they did.

For the year 2004/05, the average fuel price for electricity assumed by NIE when it constructed its tariffs was £57.74 Coal Equivalent Tonne.

This turned out to be a serious underestimate. Fuel prices continued their seemingly inexorable rise. The assumption for the year 2005/06 was therefore 25% higher at £72.41. In addition, customers had to make up the under recovery from the previous year.



Moreover, the £30m contribution which Government hoped to make, in recognition that its predecessor had seriously overcharged electricity customers through the 1992 electricity privatisation, unfortunately largely failed to materialise. This was not due to any unwillingness of Government to honour its commitment. Unfortunately the proposal ran into difficulties with the European Commission about state aid rules which were not resolved in the course of the year. The Authority's view on this is clear: electricity consumers in Northern Ireland have been paying considerably above the economic cost of electricity since 1992, and the Government proposed intervention should be seen as restorative justice by the removal of a negative state aid.

In all these circumstances it was quite an achievement to end the year with a tariff price increase for domestic customers which was limited to the rate of inflation along with an increase in energy efficiency expenditure.

Apart from prices, the electricity market is in a state of transition. Elsewhere in this report developments on market opening in Northern Ireland and the construction of the Single Energy Market (SEM) are dealt with in greater detail. Here I will limit myself to re-affirming that we will move to progressively open markets in a way which minimises the risks and transaction costs and maximises the prospects for customers, securing genuine economic benefit from competition. In the limited scope for competition at present in the Northern Ireland market, market opening has been exploited to facilitate the more rapid development of renewables. In the course of the year a total of 484 Gw/hrs of Renewable Electricity was sold to final customers which represents approximately 6% of total number of all units sold. In addition to the continuing development of wind, a highlight of the year was the construction of the 2.7MW wood burning CHP plant in Fermanagh, which should produce 23 GW/hrs of electricity each year.





Inevitably the management of the legacy costs of the industry has been a cause of contention. These are still running at around £80m per annum, being made up principally of the excess costs of the Kilroot contract, the out of market costs of Ballylumford's gas supply contract, and the buy out costs of the Ballylumford station. The sale of PTL - who own the gas pipeline to Scotland - in March 2005 to a mutual will reduce these costs by about £5m per annum.

However, there is no way of managing the legacy costs which will please everyone. New entrants in the market were clearly unhappy that their customers should pay these costs – which were recovered from customers as Public Service Obligations (PSOs) – but the Authority felt that it would be unreasonable to require customers who remained with NIE to assume the entire burden. Attempts to mitigate the legacy costs have been a feature of the Authority's work and this continues to be the case. However, the more important concern in future must be to ensure that as these excess costs are removed between 2009 and 2012, that they are not replaced with spurious charges which do nothing for either the economy or the environment.

Each year I report on the benefit to customers from the renegotiation of the Ballylumford contract. It would be appropriate also to report on the benefits or costs of Moyle mutualisation and in future on SNIP mutualisation.

2004/05 was the first full year of the Ballylumford CCGT. The high price of gas increased the benefits of the transaction since the avoided units would have cost more. Moreover, there were from 1 January 2005 savings from a reduced carbon emissions permit requirement. Overall the total Northern Ireland electricity bill was around £38m less than it would otherwise have been if the Ballylumford contract had remained unchanged and the CCGT had not been constructed.

The value of the Moyle changes has been more modest. The main value of the Moyle mutualisation has been the lower cost of financing with some savings in Opex. Thus Moyle represents a saving of about £3m this year.

During the year the Authority sought, without success, to negotiate a long term agreement with Kilroot which would have had a favourable input on prices. Despite the Authority's urging, Kilroot insisted on locking itself into what it regards as a binding commitment to install flue gas

desulphurisation (FDG) at a cost of £35m. This is despite other options available at Kilroot and the environmentally compelling reasons for Kilroot ceasing to be a base load plant. The Authority for that reason felt compelled to oppose Kilroot's planning application. The Planning Appeals Commission will hear the case in the summer of 2005.

Overall cost remains the largest single threat faced by the energy users in Northern Ireland. The Authority has striven and will continue to strive to minimise price increases and in particular to ensure that price rises are less than in neighbouring regions by continuing to attack the industry's cost base.



In environmental terms we have reached a tipping point. Emissions in the energy sector have been falling since 1997 with the arrival of natural gas for both power generation and downstream use. This downward trend should accelerate dramatically with the construction of two CCGTs, the roll out of natural gas, the growth of renewables and the steady increase in energy efficient expenditure. Such is the weight of the emission reductions in the energy sector; that despite the rampant growth in road transport pollution and the increased energy demand from population growth, that overall Northern Ireland CO<sup>2</sup> emissions have begun to fall.



During the course of the year the Authority consulted again on what the next steps on the road to a low carbon economy might be in its consultation paper "After CCGTs".

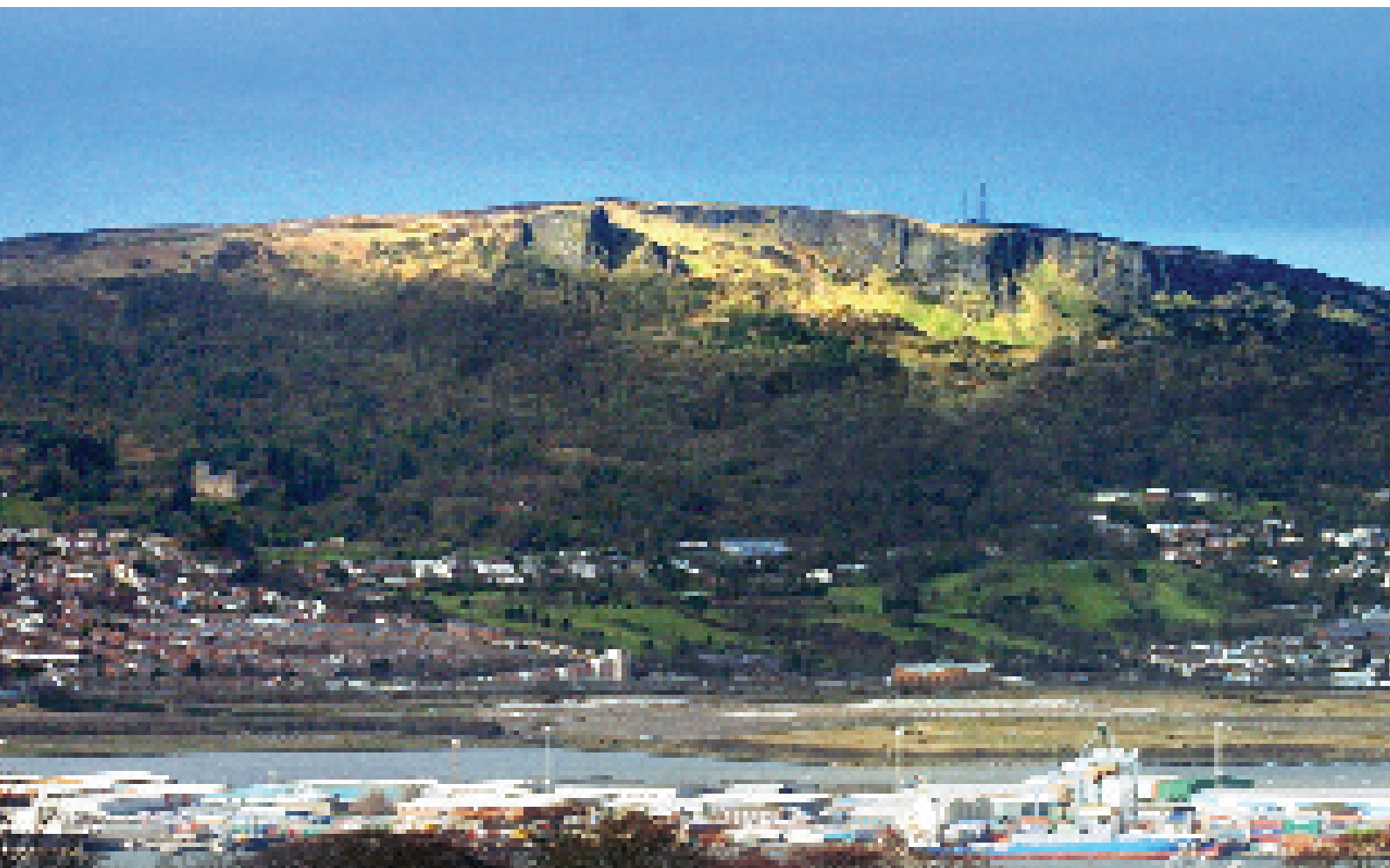
The year 2004/05 was a year of noteworthy achievements on the gas front. The transmission pipeline to the Northwest was constructed on time, within budget and so inconspicuously that its presence had to be advertised. The complex post-allocation arrangements were firmly put in place thereby honouring the commitment to ESB that its Coolkeeragh CCGT would not be placed at a cost disadvantage because of its location, and to the district towns that the cost of bringing gas to their "town gate" would be the same as the cost of bringing gas to Belfast.

Phoenix continued to add numbers of customers, and in particular to explore the potential of domestic combined heat and power plants (dCHP). Phoenix is among the keenest protagonist of the technology - which allows a

household to produce some of its electricity requirements as a by-product of its central heating system – in the UK. Should trials prove successful and the cost of manufacturing comes down, then dCHP could provide the next wave of energy innovation in Northern Ireland.

Northern Ireland energy users have long been the poor relations in these islands. We were uniquely unendowed with indigenous energy sources and for thirty years were deprived of a modern electricity or gas system. We now have a modern generator sector, falling emissions and improving levels of efficiency in the production and consumption of energy. The cost threats which we face are common to those faced by Great Britain and the Irish Republic.

Driving out costs, reducing reliance in imported fossil fuels, and year on year reducing emissions remains and will remain our abiding imperatives.





# 2

## Competition and Regulation

### All-island Electricity Market Section

The key development in the course of the year was the decision to pursue the creation of the Single Electricity Market (SEM) for the trading of wholesale electricity on an all-island basis. The SEM forms part of the All-island energy framework strategy (Nov 2004) produced by DETI, DCMNR and the Regulators (NIAER and CER). The Framework Document considers a work programme for the wider all-island energy project, of which the most immediate deliverable is the SEM. The regulators signed a Memorandum of Understanding (MOU) in August 2004 in anticipation of the SEM project being launched by the November framework paper.<sup>1</sup>

<sup>1</sup>All published documents in relation to the All-island project are available from the AIP website : <http://www.allislandproject.org>



The SEM joint working arrangements between the Regulators have been established and agreed and there is a clear decision making and public consultation structure with emphasis on strong project management.

During the course of 2004/05 the project group met to discuss the structure and development the SEM, held numerous workshops and sought feedback from industry, government and consumer representatives. This culminated in a High Level Decision Paper, published at the end of March 2005. This document forms the basis on which the project will go forward into 2005/06.

In the NI market context, the further market opening workstream proceeded, with the entire non-domestic sector now open to competition. During the course of 2004 and 2005 NIE will continue commissioning the required IT systems to move to a fully automated customer transfer system.

The operation of the NI market proceeded during the course of the year, with the setting of the NI Bulk Supply Tariff, Public Service Obligation Charge and System Support Services Charge. The industry discussion group (the "IME" Group) continued to meet during the year as a forum for industry and consumer feedback.

The introduction of BETTA (British Electricity Transmission and Trading Arrangements) required considerable work to be undertaken by market participants to prepare for its operation in April 2005. This involved Ofreg and SONI working to ensure that the requirements could be met to in a timely manner so that the NI market could continue to trade effectively with GB. Issues of interconnector licensing were addressed during the year and remain to be finalised with Ofgem and DTI in the course of 2005/06.

### **Market Opening**

The electricity trading system introduced in Northern Ireland at privatisation established NIE's Power Procurement Business (PPB) as the single buyer of electricity from the privatised generators under long-term Power Purchase Agreements (PPAs). Each year the PPB set a Bulk Supply Tariff (BST) which all supply companies,

including NIE Supply and Second Tier Suppliers, were required to pay. As a result of these arrangements opportunities for customers to benefit from electricity trading were severely limited.

The situation was changed by the introduction of the EU Directive on the Internal Market for Electricity (IME) which became law in Northern Ireland in July 1999. At this point the wholesale electricity market was liberalised to the extent that the first 26.4% (by demand) of large customers obtained the right to source their wholesale energy (via a licensed Supplier) from a source other than the PPB. The Directive required further market opening to 35% by 2003, to all non-domestic customers by 2004 and for all customers by 2007.

Through the steering group established in 2003 in co-operation with DETI and electricity industry participants, the Authority has been working to develop and extend the new trading arrangements. The Authority has adopted a least cost approach to market opening and continues to exercise regulatory oversight over the systems and expenditure necessary to comply with the Directive. Extending real choice to customers for whom it is economic to switch supplier remains a key priority for the Authority.

There has been a delay in establishing the new IT systems necessary to ensure that all the estimated 60,000 non-domestic customers would have the option of sourcing their wholesale energy requirements from a source other than the NIE Bulk Supply Tariff. This system was to have been in place in early 2005 but this has now been delayed until December 2005. Customers switching nevertheless continued to be facilitated.

### **NIE Price Controls**

Negotiations on the proposal to extend the NIE Supply Price Control to 2007 have been completed and an agreement between the Authority and NIE has been reached. The main elements of the two year extension are:

- A commitment from NIE to deliver a range of energy efficiency programmes that will create £6m of benefits to customers over the lifetime of the measures;





- The extension of the Keypad metering product and the introduction of more tariff options;
- A commitment by NIE to stimulate 1,000 household scale renewable and combined heat and power installations.

Discussions on whether a Supply Price Control will be required after market opening in 2007 have now started and will continue through the next year.

Talks have taken place during the year on the structure of the new price control for the Transmission and Distribution (T&D) Business which is due to take effect from April 2007. The T&D business is NIE's largest

regulated business and it is therefore important that any price control agreed represents a good deal for customers. It is expected that talks on a new deal will continue throughout the next year.

The existing price controls on NIE's Power Procurement Business (PPB) and Transmission System Operation (TSO) businesses have been reviewed. These price controls have been extended for one year until March 2006. Discussions are ongoing surrounding the future of the price controls for these businesses and these will be completed in the coming year.





# 3

## Delivering Energy Efficiency

### Energy Efficiency Levy

An Energy Efficiency Levy was first introduced in 1997 with the primary aim of contributing to reducing carbon emissions and costs through energy efficiency initiatives.

With increasing Government focus on eradicating fuel poverty, levy resources over recent years have become more skewed towards programmes aimed at improving the position of the fuel poor.



The increase in funding (the contribution per electricity customer in 2004/05 was £5) and shift in emphasis has caused the levy to be seen as an integral element in the fuel poverty abatement strategy for Northern Ireland.

Whilst final results for 2004/05 in terms of households removed from fuel poverty, energy and carbon savings will not be available until after this report is finalised the levy has in this year supported 17 schemes with the emphasis on alleviating fuel poverty through whole house solutions.

A separate report on the levy's achievements in 2004/05 will be produced later in the year once all the information becomes available.

### **Energy Efficiency and the Supply Price Control**

In addition to the Energy Efficiency Levy, NIE Supply has a target to deliver £16m lifetime savings to customers through stimulating additional investment in energy efficiency by 2007. In 2004/05 NIE ran three schemes under this banner focusing on insulation, lighting and heating.

A new target to achieve 1000 micro renewables by 2007 has also been introduced. A number of schemes to help this target have been developed with steady growth taking place in 2004/05.

NIE's renewable energy tariff continues to grow, with approximately 14,000 customers opting for the green option by March 2005.

### **Supporting the development of Combined Heat and Power**

NIE's SMART Programme (Sustainable Management of Assets and Renewable Technologies) Programmes (Smart 1 and Smart 2) underwritten through the Transmission and Distribution Price Control has played a significant role in supporting the development of large scale CHP as well as the much smaller domestic combined heat and power (dCHP). For example, Smart 1 support for dCHP saw the emergence for the first time in the island of Ireland of a number of exemplar dCHP cases installed in 2004/05. These installed units are being closely monitored to see how well the technology is advanced with an eye to future development and roll out.

Smart 2, which encourages NIE to seek renewable energy and energy efficiency alternatives to conventional network reinforcement, saw the successful implementation of the BALCAS biomass CHP plant in Enniskillen in 2004/05. This is the largest biomass CHP plant in Northern Ireland delivering about 2.7 MW of electrical energy and producing 50,000 tonnes per annum of wood pellets to provide fuel for renewable heating installations.

### **Reducing Emissions and the development of renewable generation**

Most of the energy used in Northern Ireland comes from burning fossil fuels which releases harmful emissions into the atmosphere. The most predominant harmful emission released, and the one that contributes most significantly to climate change, is CO<sub>2</sub>.

The Authority is required by legislation in delivering its objectives to have regard to the protection of the environment.

In 2004/05 the Authority sought to deliver on carbon reduction in a three pronged approach. These were:

- support for energy efficiency through the operation of the energy efficiency levy. Although carbon saving from levy expenditure for 2004/05 are not yet available, the figure is likely to better the figure for 2003/04 where the levy delivered carbon savings of 84,614 tonnes.
- support for the continuing development of electricity generation from renewable sources. The Authority has continued to support the Renewable Output Factor (ROF) which removes the uncertainty arising from the intermittancy of wind generation – and NIE's SMART programme which has been very influential in 2004/05 in delivering a number of small renewable installations such as photovoltaic.
- Gas is seen as the least polluting of fossil fuels. As the regulatory Authority with legislative responsibility for promoting the development of the NI gas market, the Authority has continued to support and facilitate development during 2004/05.



### **The Northern Ireland Renewable Obligation (NIRO)**

A NI Renewable Obligation is due to be introduced in April 2005. Although the authority has been persuaded that the NIRO is either necessary or cost effective we are bound to give something to give effect to government decisions. Options available to the Authority are to administer the obligation itself or alternatively to ask OFGEM to administer on the Authority's behalf through an Agency Services Agreement (ASA).

A detailed examination of the options pointed clearly in the direction of OFGEM, mainly on the basis of cost and experience (Ofgem had the necessary IT platform and procedures in place and almost three years experience in running the GB Renewable Obligation).

Throughout 2004/05 the Authority and Ofgem staff liaised closely to ensure that the necessary systems were put in place to ensure the successful implementation of the Northern Ireland Renewable Obligation from April 2005.







## Development of Northern Ireland's Gas Industry

# 4





The NIAER Forward Work Plan for 2004/05 set a number of priority work areas on the gas side. These were: -

1. Regulation of Phoenix's costs/prices and re-negotiation of Phoenix's revenue recovery formula for gas conveyance assets.
2. Facilitating the establishment and regulation of the new North West and South North gas transmission pipelines being built by Bord Gais Eireann (NI);
3. Extending Town Distribution and supply opportunities beyond the current Phoenix licence area of Greater Belfast;
4. "Postalisation" of gas transmission charges in Northern Ireland;
5. Refinancing of gas-related assets;

These are reported on in the following sections.

### 1. Brief background to Current Structure of Northern Ireland's Natural Gas Industry and licences.

Natural gas is bringing considerable environmental, economic and social benefits to Northern Ireland. It is the least polluting fossil fuel and its availability in an area provides greater fuel choice for industry. Natural gas also provides domestic customers with the opportunity to convert from inefficient central heating systems to highly efficient gas condensing boilers and in due course to domestic CHP.

Currently the operators of NI's natural gas infrastructure are Premier Transmission Limited (PTL), Phoenix Natural Gas (PNG) and more recently Bord Gais Eireann Northern Ireland (BGE NI) through the development of the North West pipeline. PTL is now owned by Northern Ireland Energy Holdings, a not for-profit company with a 100% debt finance structure. Phoenix is owned 100% by East Surrey Investments Ltd. BGE (NI) is a wholly owned subsidiary of BGE (UK).

Prior to the establishment of full gas regulatory powers within the Authority, three licences were granted by DETI to: British Gas Trading (BGT), Phoenix and PTL. These licences provided the foundation in 1996 for the birth, structure and development of the NI natural gas industry. The BGT licence

authorises the supply of gas up to and within the boundaries of Ballylumford Power Station. Since 1996, Premier Power (owners of Ballylumford Power Station) and NIE have received similar supply licences, with the NIE licence also allowing the supply of gas to eligible customers in the Phoenix licence area. Under its licence, PTL is authorized to convey gas through the SNIP (Scotland to NI Pipeline built in 1996) to the Pressure Reduction Station at Ballylumford. The Phoenix licence allows for the conveyance of gas for, and supply of gas to, customers in the Greater Belfast and urban surrounding areas.

More recently, in February 2002 a licence was granted to BGE (UK) for the conveyance of gas through two new gas transmission pipelines: the "North West" and "South North" pipelines. Additionally, on 24 March 2005, two licences were granted to BGE for the conveyance and supply of gas to customers along the route of the NW and SN pipelines. It is envisaged that gas will be available in towns along the NW pipeline by November 2005, with gas starting to become available to towns along the SN by November 2006.

### 2. Phoenix Licence issues.

At the outset of NI's natural gas industry in 1996, Phoenix was granted a Combined Conveyance and Supply Licence. This licence permits Phoenix to engage in the transmission, distribution and supply of gas within its licensed area (essentially the Greater Belfast and Larne areas). Under the terms of the licence Phoenix was granted various time limited exclusive rights. More specifically Phoenix has the exclusive right to convey gas in its licensed area for a period of 10 years. Phoenix was also granted the exclusive rights to supply gas to customers consuming more than 75,000 therms per annum for three years on a district by district basis and to customers consuming less than 75,000 therms until 31 December 04. All customers consuming more than 75,000 therms per annum are now eligible to choose the supplier of their choice. The initial licence date for the implementation of full supply competition of 31 December 2004 was changed to the 1st October 2005 in a licence modification by DETI.

During 2004 the Authority held discussions with Phoenix Natural Gas on extending the company's financing period for



it's gas distribution related assets as part of the effort to contain prices to customers and enable the owners to earn a reasonable return on their investment. In parallel the PNG licence was modified to reflect the financial structure by which PNG's transmission assets were to be recovered under the new postalised system put into place in NI in October 2004.

The discussions with Phoenix also focused on a commitment from Phoenix to engage with NIAER on the subject of shareholder "equity control" and to sell its transmission assets to a "not-for-distributed-profit" company which will be 100% debt financed. As regards this re-financing of the transmission assets, the savings to customers from a Phoenix sale will depend on market interest rates at the time of the sale. If these are favourable and other issues such as the Phoenix business separation and tax aspects of sale are suitably resolved, the transaction is expected to be completed as soon as possible.

The Authority continues to closely monitor Phoenix's final selling prices. During 2005/06 NIAER will begin a price control exercise covering all three (Transmission, Distribution and Supply) elements of the Phoenix business. This will allow NIAER to ensure that PNG's allowed costs and prices are set as low as possible.

The final selling price of gas charged by Phoenix is composed of four main elements: the cost Phoenix itself incurs for buying gas, the cost of transporting that gas to the Phoenix licence area, Phoenix's own operating costs and the cost of Phoenix's own pipeline infrastructure.

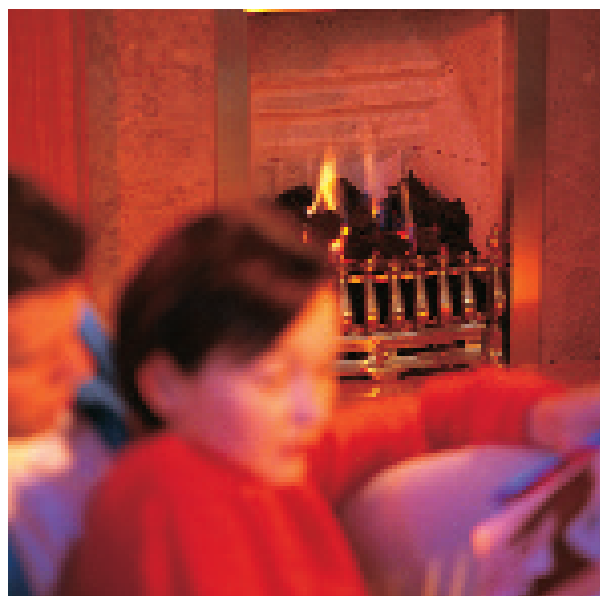
Domestic tariff information: Natural gas tariff prices from Oct 2004 for domestic customers are shown opposite.

### **3. The new BGE North West and South North gas transmission pipes and the extension of gas availability beyond Greater Belfast.**

In 2002 the Authority issued a license to BGE (UK) for the conveyance of gas through the, at that stage newly proposed, North West and South North pipelines. The Authority continues to work with BGE on delivering their licence responsibilities and during the course of 2004, the North West pipeline was completed on time and within budget.

The North West pipeline is currently supplying gas to the combined cycle gas turbine (CCGT) at Coolkeeragh, and will enable consumers in Ballymena, Ballymoney, Coleraine, Limavady and Londonderry to avail of natural gas supplies.

Already licenced under the 2002 licence, the South North pipeline will connect the North West pipeline with the natural gas transmission network in the Republic of Ireland.



It is planned to be built in 2006, and will provide a second source of gas to Northern Ireland thus improving the security of supply. The South North pipeline will also facilitate the availability of gas to towns along the route of the pipe including Antrim, Armagh, Banbridge, Craigavon and Newry. During the course of the year the Authority worked with BGE to develop the route and capacity aspects of the SN pipeline consents to completion and continues to work with BGE on developing the project.

In March 2005 the Authority successfully completed negotiations and granted licences to BGE for the conveyance and supply of gas to the main towns along the route of both the NW and SN pipelines. This was a major step in the development of the natural gas industry in NI and allows the industry to develop outside the current Greater Belfast area. This means that work can now commence on installing the necessary distribution network in order to provide individual customers in the towns with gas. Indeed

**Home Energy Tariff**

Standard Credit	Pence Per Kilowatt Hour for first 2000 KWh including VAT  3.506 (3.339 Excluding VAT)	Pence Per Kilowatt hour for each Kilowatt hour there after Including VAT  2.333 (2.222 Excluding VAT)
Direct Debit	Receives £21 per annum discount including VAT on Standard Credit. (£20 per annum discount excluding VAT).	
Pay As You Go	2.489 Including VAT (2.371 Excluding VAT)	

**Low User Tariff: applies where consumption of gas does not exceed 2,000 kWh per Annum**

Direct Debit	£64.87 per annum including VAT (£61.78 pounds per annum excluding VAT)
Standard Credit	£70.12 per annum including VAT (£66.78 per annum excluding VAT)

**Industrial and Commercial Customers Consuming below 732,000 kWh per annum tariff information:**

Phoenix's commercial tariff covers properties whose annual consumption is between 73,200 and 732,000 kWh. New tariffs came into play from October 2003. The relevant tariffs are as follows:

First 2000 kWh	2000 to 73200 kWh	73200 to 732000 kWh
3.339	2.222	1.892

(Prices exclude VAT)



it is expected that the first customers will be connected in the fourth quarter 2005.

Natural gas will bring important economic and social benefits to the towns. It is a versatile fuel for industry and its availability in the North West and South East of the province will increase the competitiveness of NI businesses. Its availability will also provide NI with the opportunity to reduce carbon emissions, as it is the least polluting fossil fuel. Natural gas will also help to alleviate social problems such as fuel poverty as it will provide domestic customers with the opportunity to convert to a cheaper more efficient fuel.

BGE have the exclusive right to convey gas to the towns for initially 10 years. Supply exclusivity will be for a period of 5 years for those customers using more than 25,000 therms per annum and 8 years for those using less than 25,000 therms per annum.

BGE will also have a period of 5 years exclusivity in which to bring forward development plans for those areas not contained within the initial 10 towns. This approach will allow for a longer planning period, and represents the best possible chance of bringing gas to these areas in an economically efficient and coordinated way.

#### (4) Postalisation.

With the North West transmission pipeline complete, three separate private companies now own Northern Ireland's natural gas transmission infrastructure.

Premier Transmission Limited (PTL) owns the Scotland to Northern Ireland Pipeline (SNIP) which transports gas from Scotland to Ballylumford Power Station; Phoenix Natural Gas (Phoenix) owns the Ballylumford to Torytown Pipeline (BTP) and the Belfast Lough Crossing. The BTP transports gas from Ballylumford Power Station to Torytown and the Lough Crossing transports gas from Torytown to Knocknagoney. These transmission pipelines serve Phoenix's distribution network in Greater Belfast; BGE (UK) owns the North West Pipeline and the South North Pipeline.

Under the previous gas transmission charging system for these pipes, each transmission pipeline owner would charge a separate tariff for the transmission of gas through each of

the three systems. This would result in a situation whereby gas suppliers in the North West who must transport gas through all three systems would be charged all three tariffs. They would also need to sign agreements with the three separate system operators governing the operational regime of each of the systems. This so called "pancaking" effect of multiple charging and multiple operational agreements would bring difficulties for customers located on the outskirts of the network.

Hence last year (commencing October 2004) the Authority and DETI, exercising the powers conferred on them by the Energy Order and after several years development, discussion and negotiation, put in place the detailed arrangements for a "postalised" transmission tariff system. A postalised transmission tariff system means that a single "average" transmission tariff would be payable for the transmission of gas to any point on the Northern Ireland natural gas transmission network. Alongside the single tariff aspect, the Authority is trying to make the associated operational arrangement as simple and effective as possible.

The authority intends to continue to actively work with the asset owners and shippers/customers to ensure the smooth operation of the new postalisation regime and to ensure smooth integration of the South North Pipeline into the postalisation regime.

#### (5) Refinancing of Gas-Related Assets.

Following the successful sale and purchase of the Moyle Interconnector it became clear that Northern Ireland's energy consumers could benefit from lower prices achieved by refinancing. Some progress in this context has been made with Phoenix in terms of beginning discussions in relation to their transmission assets and is reported on above.

The goal of achieving customer gains through examining the re-financing possibilities has in part been achieved during the year under review through the refinancing of the Scotland to Northern Ireland pipeline by the acquisition of Premier Transmission Limited and the transfer of the business to a not-for-profit 100% debt financed structure. This means that the company will no longer



be owned by shareholders but will instead be owned by a set of independent members whose job will be to monitor the company's obligations to gas customers. It is anticipated that this will deliver an estimated net present value saving of over £41.5m to consumers which results in an annual saving of between £4m to £6m real up to 2021.

#### (6) Implementation of the EU Gas Directive.

Although not specified in last year's Forward Work Programme, a significant project commenced during the year in conjunction with DETI to ensure implementation of the 2003 EU Gas Directive in NI. The aim of the Directive is to protect the consumer by harnessing the power of competition for those parts of the gas industry which are contestable i.e. supply and to have effective regulation for those parts which are natural monopolies i.e. transmission & distribution system operation. To do this the Directive concentrates on the following areas.

- (i) Consumer Protection – ensure that there are adequate safeguards to protect vulnerable customers, including appropriate measures to help them avoid disconnections.
- (ii) Market Opening – Fully open up the market to supply competition. However, as the gas industry in Northern

Ireland is still in its infancy, Ofreg and the Department has applied for derogations to ensure that this does not apply to the new towns receiving gas (to allow coordinated development of the industry) and that supply competition relating to all non-household customers in Belfast did not have to be implemented by 1 July 2004.

- (iii) Business Separation – This will require gas companies to separate the supply and conveyance elements of their business. This will not affect the BGE towns licence as there is an exemption in the Directive for companies with fewer than 100,000 customers. Ofreg is still in discussion with Phoenix about how this will affect that company's structure.
- (iv) Regulation – This will ensure that all member States shall designate one or more competent bodies with the function of regulatory authorities. Northern Ireland already has compliant regulation through NIAER, however the regulator's role is likely to be extended to cover dispute resolution.

The Authority continues to work with DETI on implementation of the Directive. This project will be a significant work item in 2005/06.





# 5

## The Northern Ireland Authority for Energy Regulation

### Resources

#### 1. Administration

The Energy (NI) Order 2003 ('The Order') established the NIAER ('the Authority') from 1 April 2003 and at the same time abolished the offices of Director General of Electricity Supply and Director General of Gas for Northern Ireland. The Order amended the Electricity (NI) Order 1992 and the Gas (NI) Order 1996 and transferred most of the functions described in those Orders to the Authority. The Order put consumers at the heart of regulation by placing on the Authority one principle objective for Electricity and one principle objective for Gas. The principle objective for electricity is set out in Article 12(1) of the Energy Order and the principle objective for gas is set out in Article 14(1).



In addition the Order transferred the assets and liabilities of the Directors General to the Authority.

The Authority's Chairman and Members (Appendix 1) were appointed by the Department of Enterprise Trade and Investment. The Chairman has been authorised by the Authority to undertake the day to day running of the Authority's administration in accordance with its rules of procedure. The number of staff employed by the Authority at 31 March 2005 stood at 25 (see Appendix 1) excluding the 5 part-time non-executive directors.

Over the past year the Gas Regulation and Gas Extension Team has been lead by **Kevin Shiels**. The team comprised **Sarah Brady, Mike Lowry** and **Sam Connolly**. **Eamon Corrigan** works with **Brian McHugh** on Gas Transmission and Postalisation. **James Hutchinson** has lead the Electricity Markets and Competition and Single Electricity Markey team comprising: **Emma Magill, Donna Hamill** and **Peter Halligan**. throughout 2003/04. The Electricity Regulation team was led by **Seamus O'Hare** supported by **Orla Mullan** and **Lisa Mullan**. **Eddie Gaw** leads the finance and administration team, supported by **John White**, Office Manager and **Gerry McNeil, Karen Gault** and **Samantha Young** in Finance. **Gerry Donnelly** is head of Social and Environmental Affairs, supported by **Frankie Dodds**. **Fiona Gallen** and **Shirley Stafford** provide the secretariat to the Authority Board

## 2. Recruitment, Training and Development

The Authority members are recruited by DETI on merit through fair and open competition. This ensures opportunities for employment regardless of race, sex, physical disability, religion, or marital status. Staff are seconded from either DETI or Department of Finance and Personnel where recruitment activities are carried out by NI Civil Service Commission and/or Departmental Personnel Divisions. During the course of 2004/05 the Authority has been seconded the following staff :

### 3 Economists;

All of the above staff were recruited to fill vacant posts.

In relation to the training and development of staff, the Authority in conjunction with DETI operates a policy of

Personal Development Plans through which staff and their line manager agree on their training and development needs and how/when this training is to be carried out. There was continuing emphasis on the development of necessary specialist skills, for example in the regulatory economics field, and on financial management and IT skills.

During the course of the year training courses and seminars were carried out for all staff on Equality and Disability Awareness.

## 3. Finance and Funding

### 3.1 Resource Accounts

As a non-ministerial Government Department the Authority's funds are voted by Parliament and accounted for on an annual basis through the Resource Account. The published accounts are available from The Stationery Office or can be downloaded from our website (<http://ofreg.nics.gov.uk>). The cost of running the Authority in the financial year ended 31 March 2004 amounted to £832,000. The Authority's original resource budget as per spring supplementary estimates was £853,000. More detailed financial information on costs can be found in the Authority's Resource Accounts, a summary of which are published on the next page.

The Operating Cost Statement (the public sector equivalent of a profit and loss account) and a schedule setting out our financial performance in pursuit of objectives are shown below. The figures shown in the Accounts opposite are unaudited at the time of publication.

### 3.2 Licence Fees

The Authority's costs are recouped primarily from the annual fee paid by electricity and gas licensees. From 1 April 1998 the fees were reclassified as Appropriations in Aid and to give effect to the re-classification DETI gave the Authority permission to collect electricity licence fees on its behalf. No change was required to the arrangement for gas licence fees which are already collected by the Authority.

Electricity licence fees are calculated on the basis of a determination made by the Authority in respect of the





## Operating Cost Statement

	2004-05	2003-04
	£000	£000
<b>Administration Costs</b>		
Staff Costs	920	827
Other administration Costs	344	380
<b>Gross Administration Costs</b>	<b>1,264</b>	<b>1,207</b>
Operating Income	(1,275)	(1,505)
<b>Net Administration Income</b>	<b>(11)</b>	<b>(298)</b>
<b>Request for Resources</b>		
Expenditure	843	792
<b>NET OPERATING COST</b>	<b>832</b>	<b>494</b>

## Costs by NIAER Aims and Objectives

	2003-04			2002-03		
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
<i>for the year ended 31 March 2004</i>						
<b>Objective (I)</b> To promote competition in the generation and supply of Electricity and to protect the interests of electricity consumers with regard to price and quality of service	1,272	(880)	392	1,273	(1,244)	29
<b>Objective (II)</b> To promote the development and maintenance of an efficient, economic and co-ordinated gas industry and to protect the interests of gas consumers with regard to price and quality of service	835	(395)	440	726	(261)	465
<b>TOTAL</b>	<b>2,107</b>	<b>(1,275)</b>	<b>832</b>	<b>1,999</b>	<b>(1,505)</b>	<b>494</b>



identifiable costs of electricity regulation which stipulates that one third of the total fees due should be charged to the generators, one third to transmission and distribution and one third to those engaged in supply.

Gas licence fees are calculated on the basis of a Determination made by the Authority in respect of identifiable costs of gas regulation and will be apportioned on:-

- (i) the basis of 0.005p per total therm conveyed in the year prior to the year for which the Authority's costs are being recouped as measured by metering equipment installed at the Pressure Reduction Stations at Ballylumford and Torytown; and
- (ii) an amount equal to the difference between 95% of the costs referred to above and the amount calculated at (i) above apportioned on the basis of an estimate of the amount of regulatory activity applicable to each respective licensee currently estimated at 80% for Phoenix Natural Gas and 15% for Premier Transco;

The Authority have also decided that holders of gas supply licences will be required to pay a minimum fee each year of £1,000. The balance of the costs to be charged to gas supply licensees will be apportioned on the basis of supply measured in terms of total therms supplied or where this is not available on the basis of contracted supply.

The costs of the GCCNI in carrying out the duties assigned to it by the Order are collected by the Authority from NIE and Phoenix respectively on an apportion decided by the GCCNI. GCCNI costs for the Financial Year ended 31 March 2004 were £269,072.

The electricity licence fees in respect of the financial year ended 31 March 2004 totalled £1,500,000 whilst the gas licence fees in respect of the financial year ended 31 March 2004 totalled £500,000.

### 3.3 Central Government Financing

Amounts of £331,000 in respect of the financial year end 31 March 2003 and £491,000 in respect of the financial year



end 31 March 2004 were borne by central government in respect of expenditure on areas not covered by current licences such as gas promotion, equality etc.

### 3.4 Accounting System

The Accounting system was further developed over the past financial year. The system – Sun Systems 5.0 – allows Finance Section to produce the resource accounts in a more effective manner and timely manner – meeting HMT's faster financial closing targets before they become statutory – the resource accounts were produced one month before the statutory date of 31 July. The updated system also has an associated reporting module, which will be used to enhance the financial and management information available to staff throughout the Authority.

### 3.5 Audit

#### External Audit

The statutory annual accounts are audited by the Northern Ireland Audit Office (NIAO), who work with the Authority Finance Section staff from July through to final publication in October. The 2003/04 Accounts were given an unqualified certificate by the NIAO.

#### Internal Audit

The Internal Audit of the Authority is carried out on a contract basis. Following a tender exercise, a local company of professional accountants and auditors HELM were successful and will carry out the Internal Audit function for the next 3 years. The Internal Audit report, published July 2003 gave general assurance that the system of internal controls were adequate and operating effectively, although some recommendations for improvements were made and have since been implemented by the Authority's management.

#### Audit Committee

As per Her Majesty's Treasury guidelines an Authority Audit Committee was established and met on a quarterly basis during 2003/04 in order to provide additional assurance to the Accounting Officer that the system of internal controls are operating effectively. The Committee is chaired by **John Gilliland** and its members are **Joan Whiteside**, and **Eddie Gaw**, Secretariat is provided by **Karen Gault**. The Committee has been involved in the following areas :

- (i) approval of the Internal Audit plan for the next 3 years;
- (ii) review of management responses and implementation of both external and internal audit recommendations over the past year;
- (iii) review and revision of the corporate risk register;
- (iv) development of management and financial information;
- (v) development and approval of the Accounting Officer's Statement of Internal Control;
- (vi) Tender evaluation panels;

### 3.6 Corporate Governance

Corporate Governance has been strengthened, since the inception of the Authority, by the establishment of an audit committee, the implementation of External and Internal Audit recommendations, the development and formal review of a corporate risk register and the incorporation of risk management more fully into corporate planning and decision making. These developments assist in giving the Accounting Officer greater assurance that the Authority is maintaining a sound system of internal control that supports the achievement of the Authority's aims and objectives,

### 3.7 Payment Policy

The Authority complies with prompt payment guidelines set out by Government which specifies payment within 30 working days. The Authority endeavours to pay all undisputed invoices within 30 working day from receipt of invoice. During the financial year, 2003-2004, 97% of the Authority's creditors were paid within 30 working days.

## 4. Equality Scheme and Equality Impact Assessments

The Authority's Equality Scheme and Equality Implementation Plan were reviewed during the year to ensure its commitment to the fulfillment of the obligations in Section 75 of the NI Act 1998 is maintained. The obligations concern the promotion of equality of opportunity between the groups identified by the Act as relevant for NI purposes and promoting good relations between persons of different religious belief, political opinion or racial group.

In line with the implementation plan the following two areas were addressed: -

- (i) Training held for all Authority staff on Equality and Disability Awareness;
- (ii) Screening of Authority policies in order to ascertain should Equality Impact Assessments be carried out.





## 5. Publicity and Communications

The Authority's Freedom of Information Scheme was approved on 12 November 2002. The Scheme can be viewed on our website and sets out, among other things, the classes of information publicly available without the need for a specific request. An in year review was carried out to ascertain what additional responsibilities the scheme will impose from 2005 regarding the supply of information in response to individual requests.

Publications, consultation papers and press releases are routinely made available on the website. The Authority has as a result had a wide involvement with the media through interviews and features.

In the past year we have continuously improved and updated our website in order to inform and consult stakeholders in a user friendly and informative manner. Publicity consultants have carried out a review of the website and commented positively on it.

During the year a tender exercise was carried out in order to employ a new Public Relations Company – Weber Shandwick was the company chosen to manage the Authority's media and publicity.

Details of all Electricity and Gas licences and any modifications, revocations, directions, consents or determinations relating to them are contained in their respective public registers, which are held in the Authority's office at 64 Fountain Street, Belfast. Each can be viewed by the public, for a fee of £1.00, from 10.00am to 4.00pm Monday to Friday.

Copies of licences and related documents are available for sale and may be viewed on our website - <http://ofreg.nics.gov.uk/>

## 6. Land Bank

### 6.1 Belfast West Power Station

Following an appraisal of BWPS, validated by the Authority's consultants, on the assessment of the risk presented by its disuse and, it was agreed that prompt dismantling and demolition would be the safest course of action. The level of risk posed by the site in its current status is of concern. This relates chiefly to the release of asbestos and contamination of the local environment. Technical and Environmental reports have set out the basic strategy required to achieve the controlled, safe dismantling and demolition of the station. Prices for the work have been sought to assist in setting budgets.

The Authority has developed a memorandum of understanding with NIE in order to encapsulate the high-level strategy, roles and responsibilities of taking forward the work associated with the demolition of BWPS.

As NIE PBB do not have the resources required to manage and deliver the demolition and clearance of the BWPS site they have tendered for and established a dedicated Project Management Team (PMT) who will be responsible for the procurement of the necessary resources to complete this project.

There has been significant progress at Belfast West Power Station completing pre-demolition enabling works,



conducting discussions with stakeholders and statutory authorities and in the tender competition for the main demolition contract.

NIE is managing the site to ensure that all prevailing risks are mitigated as cost effectively as possible, but in full compliance with Health & Safety, environmental and other relevant legislation. As part of this process we have ensured that NIE have been maintaining regular contact with statutory authorities including EHS, HSENI and the Northern Ireland Fire Brigade (NIFB). These parties have all offered advice and made recommendations with respect to specific actions that have been required. We will continue to liaise with these authorities and take on board any further recommendations they make with respect to managing the site.

The Authority receive a monthly report on costs by category of expenditure and an analysis of any significant variances against the agreed and approved budget. The Authority have liaised with NIE in order to establish the process of moving us towards a point where the Authority should be able to consent with reasonable confidence, when formally requested, to the expenditure which NIE expect to incur on the demolition project. This has involved the Authority in the acquisition of technical expertise and opinion capable of providing the Authority with adequate reassurance that NIE are handling the demolition process in an economic and effective way which takes properly into account the risks and liabilities involved – the consultants employed by the Authority are Mott McDonald.

## 6.2 Coolkeeragh Power Station

Over the past year NIAER have been in negotiations with ESBI on the bid to project manage the demolition and decommissioning of Coolkeeragh. However agreement could not be reached on a way forward therefore the Authority have sent a direction to NIE to commence work on the project management of CPS .

## 7 Single Electricity Market

NIAER Finance team have been working jointly with CER on developing the financial and administrative structures to support the teams working on the SEM. This has resulted in the implementation of an accounts payables system

developed in conjunction with the finance team in CER. A number of consultancy tender exercises have also been developed and run in conjunction with CER.

### 7.1 Licensing

All the information required to obtain a licence in NI including a specimen application form is now available on our website. During the year 2003 - 2004 a new generation licence was issued to Altahullion Wind Farm Ltd and one other Windfarm Generation Licence and a Second Tier Supply Licence were in process.

It is hoped to finalise a standard bespoke wind farm generation licence in the very near future.

## 8. Climate Change Levy Administration

The Finance Act 2000 introduced the CCL and gave the Authority responsibility for accrediting renewable generators, administering and monitoring the exemptions claimed and issuing Levy Exemption Certificates. The cost of administering this scheme is recouped from central government by way of an addendum to the Spring Supplementary estimates each year.

## 9. Consumer Representation

The Energy Order transferred responsibility for looking after the interests of consumers of electricity and gas to the GCCNI. The Order also abolished the Northern Ireland Consumer Committee for Electricity (NICCE) and the Group established by the GCCNI in connection with the exercise of its functions in relation to the supply of energy (excluding electricity) and replace both organisations with one group dealing with energy.

The Authority collected and passed on to the GCCNI the sum of £269,383.00 being the estimated amount required by the GCCNI to carry out its functions under the Order.

The Authority still has retained responsibility for making determinations, for making and setting Overall Standards and Guaranteed Standards, conditions dealing with resale of electricity, approving Codes of Practice and publishing a report on NIE's performance in meeting its standards.



# NIAER Organisation Chart

