



**NIAUR Draft Corporate Strategy
(2009-14)**

and

**Forward Work Programme
(April 2009 – March 2010)**

**A Utility Regulator Consultation
Paper**

14 November 2008



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Executive Summary

Background

1. This consultation document has two primary purposes:

- To set out for consultation the strategic themes and priorities underpinning our draft Forward Work Programme. We do this through the publication of a Draft Corporate Strategy in (**Part One** of this consultation).
- To consult on a proposed Forward Work Programme (**Part Two**).

2. This consultation also includes, as attachments, Decision papers in relation to several important external-facing strategy development projects and consultations, on:

- 1) developing our approach to further boost competition in our regulated energy retail markets (released April 2008);
- 2) the challenge of Sustainability and the appropriate Utility Regulator policy responses (released March 2008); and
- 3) key issues that need to be considered in developing our formal 5-year forward looking strategic approach (released June 2008).

Draft Corporate Strategy

3. Part One of the consultation presents our draft 5-year Corporate Strategy.

4. The development of this Draft Corporate Strategy marks a watershed for the Utility Regulator. For the first time in our evolution we've set out to formally plan, consult on, agree and then undertake a set of strategically considered themes and priorities. We recognise that thinking strategically in conjunction with our wide spectrum of stakeholders is a necessary requirement for achieving our duties and we hope that the development of our Corporate Strategy will facilitate this thinking process and better overcome the intricate set of energy and water regulation issues facing us today.

5. Through this consultation we are keen to be transparent about our proposed themes and how they can interact in the future with the strategic direction of our stakeholders. We note in particular in this regard: the upcoming Strategic Energy Framework (SEF) development work being initiated by DETI, aimed at establishing policy priorities in the energy context, which will impact on our strategy; the ongoing review of "water" strategic issues being undertaken by DRD and the Executive in light of the Independent Review; and the review of our Social Action Plan which is discussed more fully below. Also, where necessary,

we will consider changes in our final Strategy and FWP paper in light of the current review being undertaken by Douglas McIlldoon on NIE Energy prices.

6. The draft considers the following **key drivers and challenges** for our strategy:

- Rising prices to consumers and the need for concerted action
- Boosting competition in the retail and wholesale sectors
- Environmental sustainability
- Security of supply issues
- The need to “harmonise” our strategy with others
- The growing importance of EU (European Union)-level factors to our work
- Technological and information advances
- The need to run a fit-for-purpose office

7. In light of the drivers and challenges discussed above, we have identified the key strategic themes which, taken together, frame the direction of our proposed Corporate Strategy.

8. At a high level, **the protection of customers is at the heart of what we do** and why we exist. It is the broad umbrella across our duties and functions. However, to make this more concrete and deliverable in terms of a Corporate Strategy and Forward Work Programme, this high level purpose can be pared down into a number of key themes determining our overall strategy (these themes are further developed in the main text at section 1.4).

A. Protecting customers by ensuring utility monopolies act efficiently.

B. Environmental Sustainability and Security of Supply.

C. Protecting vulnerable customers.

D. Boosting competition in wholesale and retail sectors.

E. Harmonising energy markets and use of infrastructure.

F. Evolving our Regulatory Framework.

G. Our own Organizational development.

9. We are aware that it is potentially the case that at times there may be **tension between our strategic priorities**. For example, an area of potential tension arises in relation to environmental sustainability concerns and resulting investment demands for our regulated utilities; and their interface with our price control processes where we are seeking to minimise costs for consumers. We wish to note explicitly that it is our intention to seek to identify these tensions where they arise and, through consultation and work with our stakeholders,

transparently and realistically tackle these tensions to identify optimum courses for action for our Workplans.

Draft Forward Work Programme

10. Part Two of this document sets out for consultation our proposed Forward Work Programme (FWP). The Utility Regulator has finite resources to deliver our statutory duties and functions and to contribute to the delivery of policy objectives set by Government. This requires us to carefully consider and select those actions which we consider to be priorities for inclusion in our FWP. The draft FWP has been developed with the benefit of the Strategy consultations undertaken this year, and in light of the draft Corporate Strategy in Part One.

11. In terms of what we are trying to achieve in the coming work-planning horizon, based on the strategic themes the consultation makes it clear that we wish to progress a number of key strategic areas. These are covered in more detail in the paper and the decision Attachments, however they include notably:

- the protection of customers through timely and effective price control exercises, notably in relation to the newly created water company and in several key energy areas;
- fostering enhanced levels of competitive pressures in our energy markets at both the wholesale and particularly retail levels. In relation to the latter, we intend to deliver, in conjunction with CER as necessary, on the actions discussed and identified in our Retail competition decision attachment (Attachment 1), notably in relation to ensuring the operational processes are ready for full retail competition, and changing current regulatory approaches to facilitate more market entry.
- helping to deliver environmental sustainability through a large number of actions discussed and identified in our Sustainability decision attachment (Attachment 2), for example in relation to further development of the gas industry, stimulating enhanced use of renewables for power generation and ensuring our energy structures are ready for these developments, and ensuring appropriate information and reporting is in place to allow informed environmental decision making.
- Continuing to foster regulatory co-operation with the energy regulator in the Republic of Ireland and with the various utility regulators (including Ofgem, WICS and Ofwat) as necessary. In particular our continuing work on developing co-operation and harmonisation in terms of our electricity markets and common arrangements for gas will take priority.

12. The detailed planned actions within our FWP are presented in tabular format in section 2.2 and Annex 1 of this consultation. At a broad sectoral level, key priorities noted include:

Water

13. The **protection of the customer** is the most dominant theme for this initial and developing phase of water reform, with the first price controls for NIW a key priority. The themes of **sustainability**, **security of supply** together with climate change and **compliance with European Directives** are also important aspects embraced in the Price Control 2010.

14. The strategic theme regarding the further **evolution of our regulatory framework** is also clearly highly relevant to our sectoral direction on water regulation as we bed down new regulatory approaches and understand the implications of **EU Directives** for our regulatory considerations. Our **organisational development** theme includes our focus to deliver in a one team ethos and working alongside other directorates.

Gas

15. Key strategic themes including **customer protection**, **security of supply** and **environmental sustainability** all feature within the planned gas activities in the coming period. Besides price control activity for firmus Energy, the next five years offers further opportunity to develop the industry with the potential for storage facilities, harmonisation of the industry on an all island level and consideration given to further network expansion as well as increasing connections within areas already serviced. Further consideration as to how to foster greater competitive pressures will also feature in our workplan. We will also use the period to bed down regulatory arrangements through developing a more structured and robust approach to monopoly price controls with the creation of a detailed ongoing cost reporting matrix to provide improved scrutiny and transparency on network costs.

Electricity

16. The Utility Regulator's principle objective with respect to electricity is to protect consumers and wherever appropriate to do so by promoting effective competition. A key focus over the last 4 years has been the establishment of the Single Electricity Market (SEM). This has resulted in single all-island wholesale market for electricity aimed at enhancing security and diversity of supply, encouraging market efficiencies and economies of scale and promoting greater

competition. In parallel we have encouraged greater competition at the retail level with completion of non-domestic market opening 2005 followed by domestic market opening in November 2007.

17. Customer protection, security of supply and sustainability, and further **harmonisation** are key themes in the coming period in electricity. The challenge over the coming years is to ensure that the SEM continues to meet its objectives through the provision of a stable market with transparent and equitable trading arrangements. A measure of that success will be the continuing attraction of new investment in generation with an appropriate balance between conventional fossil fuel and renewable generation. A significant challenge, both at the Northern Ireland and at the all-island level, will be the development of effective retail competition particularly for domestic and small business customers. Experience of more than ten years in the larger GB market has shown that the development of retail competition at the domestic level is not without its difficulties and we will need to learn from this experience in what is a relatively small market even when considered at the all-island level.

Corporate Affairs

18. Within our central Corporate Affairs Directorate, work is being prioritised on **environmental sustainability, organisational effectiveness and protecting vulnerable customers**.

19. Work is planned to continue to effectively operate the various environmental schemes for which we have responsibility. Taking on board the outcome of the Energy Efficiency Levy (EEL) and Social Action Plan (SAP) reviews will also be key priorities in the coming work period. Further work is planned on continuing to develop internal best practice, for example on HR policies, and website and communications tools.

Consultation arrangements

20. The Utility Regulator asks for responses in writing to this Consultation paper by **12.00 noon on 9th January 2009**. Comments are welcome on any aspects of the paper – on this occasion we have chosen not to ask specific questions throughout.

21. We intend to consider any consultation responses whenever they arrive and immediately following the closing date for responses. In addition, our Board intend to devote some time to final thinking and decisions after the closure of the consultation. For these reasons, we apologise but will be unable to allow an extended deadline for receipt of responses to this consultation.

22. If you do not want all or part of your response or name made public, please state this clearly in the response by marking your response as '**CONFIDENTIAL**'.

23. Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA) and the Data Protection Act 1998 (DPA)). If you want other information to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.

24. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Utility Regulator.

25. During the consultation period we intend to hold a workshop/discussion session for our stakeholders in order to allow discussion of the contents of this paper. Iain Osborne will chair this discussion and we intend to hold this session at **2:00 – 16:30 on Wednesday 10th December at NIAUR offices**. As space on the day may be constrained, could we ask that anyone wishing to attend contacts us (by letter, phone or e-mail using the contact details below) to let us know please **before noon on Friday 5th December**.

26. Enquiries about consultation arrangements and responses to this document can be made to Elena Ardines at:

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Purpose of this Document

27. This consultation document has two primary purposes:

- (1) to further consult on the strategic themes and priorities reflected in our Draft Corporate Strategy (Part One); and
- (2) to consult on our draft 2009/10 Forward Work Programme (Part Two).

28. Taking each of these two in turn:

(1) Draft NIAUR 5-year Corporate Strategy (2009-14)

29. The **first** aim of this document is to set out the strategic themes and priorities underpinning our draft Forward Work Programme. We do this through the publication of a Draft Corporate Strategy in **Part One** of this consultation.

30. We are aware of the importance of our role to the future of Northern Ireland and the need to have a clear and deliverable set of objectives and associated budget for 2009/10 - the energy and water sectors are vital to the economy, environment and community. However, we recognize also the need to take a longer view of developments and set our direction of travel in terms of strategic priorities and likely work areas across the various parts of NIAUR (Northern Ireland Authority for Utility Regulation). Future Forward Work Programmes can then be constructed within the framework of the themes and priorities which we see as determining much of our work going forward and which are further explained in this Part One.

31. In recognition of the importance of setting workplans and objectives in the light of thought-through strategic approaches, during 2008 we have engaged in a number of important external-facing strategy development projects and consultations. These have included significant recent consultations on:

- a) **developing our approach to further boost competition in our regulated energy retail markets (April 2008);**
- b) **the challenge of Sustainability and the appropriate Utility Regulator policy responses (March 2008); and**
- c) **key issues that need to be considered in developing our formal 5-year forward looking strategic approach (June 2008).**

32. We examine each in turn in the three Decision Paper attachments to this Consultation to highlight the key points raised and resulting policy action areas that were considered important in the context of our FWP development.

(2) Forward Work Programme (FWP)

33. NIAUR has a statutory duty to consult on and publish a forward work programme (FWP) before the commencement of each financial year. The **second** purpose of this programme is therefore to set out for consultation, in **Part Two** to this paper, the projects (other than those comprising routine activities) that we intend to undertake in the 2009/10 year. Within the drafting of Part Two, these projects and actions are directly and transparently related to the strategic themes and priorities of the Corporate Strategy.

34. Given the need to look forward beyond one year, for example because many of our work areas will span more than one year, Part Two also looks forward beyond 2009/10 and gives an early indication of our intended work programmes for 2010/11 and 2011/12. We hope this is helpful to our stakeholders, as well as having useful work planning and scheduling benefits for us internally.

PART ONE

Draft Corporate Strategy 2009-14

1.1 Background to the Draft Corporate Strategy

1.1.1. The development of this Draft Corporate Strategy marks a watershed for the Utility Regulator. For the first time in our evolution we've set out to formally plan, consult on, agree and then undertake a set of strategically considered themes and priorities. The proposed Corporate Strategy will thus set the overarching framework for our future annual Forward Work Programmes - the first example of this, the draft FWP for 2009/10, makes up Part Two of this document.

1.1.2. The development of our Corporate Strategy is an important and timely exercise for us for three reasons in particular.

1.1.3. First, in June this year we issued a consultation paper on key issues that affect the development of our Draft Corporate Strategy. That consultation was augmented by other substantial consultations during the course of this year, notably on our future role in relation to Sustainability issues and on Energy Retail Competition issues. We appreciate the need to feed the thinking from those exercises through to actual strategy decisions, work plans and actions. Those consultation exercises are explicitly discussed in the Decision Paper attachments to this document and the responses made to the earlier consultations have helped shape this Draft Corporate Strategy (and associated FWP) which we now wish to consult upon further.

1.1.4. Second, the draft strategy (and associated FWP) is released at a time of substantial change and complexity in our work environment. To note just a few of the relevant factors: establishing robust regulatory regime for the reformed water and sewerage industry in Northern Ireland; high and volatile wholesale energy prices and the implications for hard-pressed customers; achieving optimal benefits from the current drive towards all-island co-operation on key energy issues; the search for an environment more conducive to competition in energy retail markets; the "internationalisation" of regulation (e.g. in terms of European Union legislation, cross-border trading and international environmental commitments); and the increasing importance of social and environmental issues in both the water and energy arenas.

1.1.5. Third, our office has been going through significant change and restructuring in recent times. This has included the recruitment of a new team of Directors, and also an expansion in our staff resources to be able to properly fulfil our duties and responsibilities. We have become a multi-Utility Regulator: we are now economic and customer service regulator for the water and sewerage industry in Northern Ireland. This was added to our longer standing duties as economic regulator of the electricity and natural gas sectors in Northern Ireland. The scope of our work brings with it many challenges, for example bedding down the water regulation processes with other key stakeholders including DRD

(Department for Regional Development), NIEA (Northern Ireland Environment Agency), NIW (Northern Ireland Water). It also brings opportunities – for example to learn from best practice and incorporate these ideas across all our industry functions. We see the development of this Corporate Strategy as a way of thinking through and consulting with our stakeholders on these challenges and opportunities in a transparent and constructive way.

1.1.6. We recognise that thinking strategically in conjunction with our wide spectrum of stakeholders is a necessary requirement for achieving our duties and protecting customers of the regulated companies. We hope that the development of our Corporate Strategy will facilitate this thinking process and better overcome the intricate set of energy and water regulation issues facing us today. As well as our internal team of experienced staff, we will welcome alliances externally with government departments, organisations and other stakeholders, as we believe whole heartedly in delivering our priorities through collaboration and co-operation.

1.2 Who we are and what we do

1.2.1. What is now the NIAUR (Northern Ireland Authority for Utility Regulation) – called the Utility Regulator on a day to day basis – was first established in 1992, following privatisation of the Northern Ireland electricity industry. With the development of the natural gas industry in Northern Ireland, the Utility Regulator's role was extended in 1996 to cover gas. From April 2007 we also became the economic and customer service regulator for Northern Ireland's water and sewerage sector.

1.2.2 The Utility Regulator is a non-Ministerial Government Department. It is not a policy-making Department but its role is to ensure that the utility industries in Northern Ireland are regulated and developed within the strategic policy parameters set out by Ministers and in the relevant legislation. The Utility Regulator exercises its broad range of functions in line with statutory duties set out mainly in the Energy (Northern Ireland) Order 2003 and the Water and Sewerage Services (Northern Ireland) Order 2006.

1.2.3. *At the heart of our duties and functions is the protection of the interests of water, sewage, gas and electricity consumers in Northern Ireland.*

1.2.4. Briefly, the Utility Regulator has a number of principal statutory objectives:

1.2.5. As regards the **water and sewerage** sector:

- a. to protect the interests of consumers in relation to the supply of water by water undertakers and the provision of sewerage services by sewerage undertakers, wherever appropriate by facilitating effective competition between persons engaged in, or in commercial activities connected with, the supply of water and the provision of sewerage services;
- b. to secure that the functions of a water undertaker and of a sewerage undertaker are properly carried out as respects every area of Northern Ireland; and
- c. to secure that companies holding appointments as relevant undertakers are able (in particular by securing reasonable returns on their capital) to finance the proper carrying out of the functions of such undertakers.

1.2.6. As regards the **electricity** industry:

to protect the interests of consumers of electricity supplied by authorised suppliers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the generation, transmission or supply of electricity.

1.2.7. As regards the **gas** industry:

to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland.

1.2.8. Our work is delivered in a fast moving and at times complex environment. Therefore robust analysis, transparency, good communication and co-operation with stakeholders are vital. We need to maintain close contact and positive collaboration with a wide variety of companies, government and other stakeholders operating in the energy and water sectors.

1.2.9. The protection of utility customers in NI is our key focus, but our work is not simple and the problems can be difficult to overcome. Our day to day work on regulation and customer protection incorporates legal, financial, economic and technical aspects; it also has a rich contextual environment which includes our statutory duties and governing legislation, relationships with industry and other regulators, local and national government, EU policy frameworks.



1.2.10. This complexity drives us to keep working hard to offer an independent centre of expertise, focused on protecting present and future consumers' interests, and to ensure openness and transparency of our decision-making processes. Importantly also, in the context of the return of devolution, as a non-Ministerial Government Department we will seek to provide a professional,

informed and objective resource to the Assembly and Committees on energy and water regulation and charging issues, and related issues such as sustainability.

1.2.11. Internally, NIAUR has three regulatory Directorates – electricity, gas and water – which are responsible for the economic and customer service regulation of the three industries. These are supported by a Corporate Affairs Directorate which is responsible for social and environmental matters; appeals, complaints and disputes; finance and administration; strategy development and communications.

1.2.12. Our functions and duties are fairly wide-ranging, but at heart they relate to the protection of customer interests through effective regulation of the three regulated sectors. We achieve this by:

- Protecting the interests of Northern Ireland consumers of today and tomorrow by effective and transparent scrutiny and regulation of regulated companies.
- Issuing and maintaining licences for gas, electricity and water companies to operate in Northern Ireland.
- Protecting vulnerable customers of these companies in Northern Ireland.
- Ensuring that these companies comply with the relevant legislation and licence obligations.
- Encouraging regulated companies to be more efficient and responsive to customers.
- Controlling the prices these companies charge to customers in Northern Ireland.
- Working to encourage competition in the gas and electricity markets.
- Setting and monitoring standards of service which these companies provide to customers in Northern Ireland.
- Acting as an adjudicator on certain customer complaints, disputes and appeals.
- Carrying out our duties with the environment and sustainability in mind.

1.2.13. There are many similarities in the work issues that we deal with in relation to each of the three regulated sectors: e.g. the protection of customer interests from monopoly power; the need to control prices and scrutinise service levels for customers. To some degree that allows us to adopt cross-sectoral thinking and

approaches to problems – we see this as a valuable tool stemming from our multi-utility basis.

1.2.14. However there are also many work issues that arise that are specific to an individual regulated sector. This can be the case because simply of the individuality of the sectors with which we interact; but to a significant degree it is also a symptom of the fact that the maturity of the regulatory interface with each of the three sectors in the NI context is different (see diagram below). In electricity, our interaction with the industry is largely characterized by regulation of relatively more mature regulated markets, the development of all-island approaches to issues and problems, developing competition in various markets, and effective price controls where still considered necessary – though the latter makes up a relatively smaller part of our workload. The electricity industry is relatively large, mature and diverse and has a significant (and growing) all-island aspect to it already.

1.2.15. In gas, the regulated markets and industry structure in NI are relatively immature compared to electricity and gas for example in the GB (Great Britain) marketplace. Much of our interaction with industry players remains in terms of price controlling the monopoly networks and establishing the necessary third-party access arrangements, as well as controlling final gas retail prices to consumers. We are in the early stages of developing all-island common gas arrangements (decisions in this context will be taken where they demonstrate robust benefits to consumers) and also the initial steps of developing fuller real competition in the gas retail markets.

1.2.16. In water and sewerage, the relationship between the NIAUR and the newly established water and sewerage undertaker is a new and evolving one which needs to be bedded down and worked through – particularly the new price control regime. Much of the effort in the early years will very much be focused on establishing the data systems and analyses aimed at delivering the first price controls. Issues such as developing competition in the retail and wholesale parts of the water & sewerage sector are likely to be for the long term.

1.2.17. In all our work with the regulated sectors, we are required to take account of the acknowledged five principles of best regulatory practice. These principles do now, and in the future will continue to, underpin how we work within the regulated sectors.

Proportionality

Our actions should be appropriate for the perceived problem or risk.

Accountability

We must be able to justify the decisions we make and expect to be open to public scrutiny.

Consistency

Our actions and decisions must be “joined up” and implemented fairly and consistently.

Transparency

Our work and decisions should be open, simple and user friendly. Policy objectives and decisions should be clearly defined and effectively communicated to all our stakeholders.

Targeting

Our Regulatory action will be focused on the problem. We should aim to minimise side-effects and ensure that no unintended consequences will result from our actions.

1.2.18. In addition to these 5 principles, we acknowledge the importance of **timeliness** in our decision-making. We will seek to undertake our functions and make decisions in a timely manner and without undue delay.

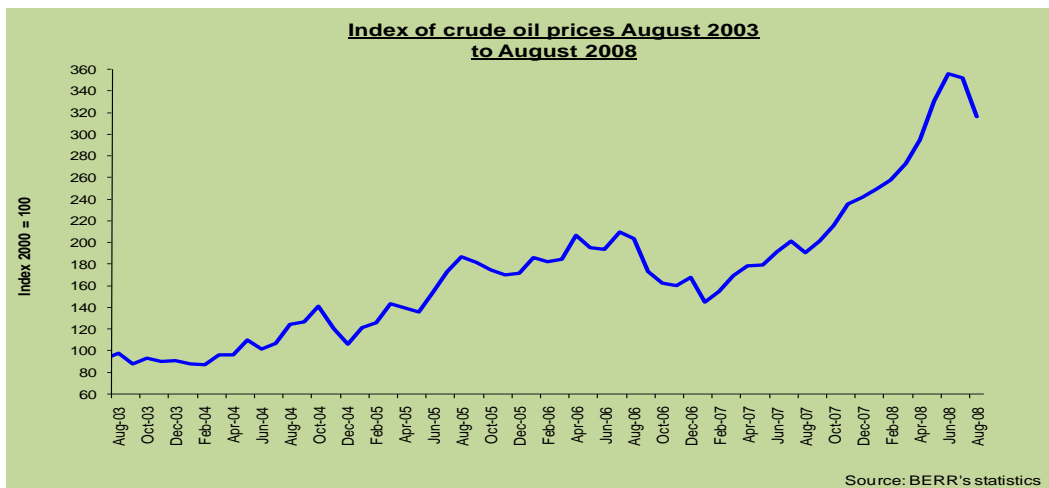
1.2.19. Further detailed information about NIAUR and our work can be viewed on our website at www.niaur.gov.uk.

1.3 Strategy challenges and drivers

1.3.1. The purpose of this section of the Strategy paper is to briefly set out the key context factors and challenges that drive our intended strategic approach in the coming period. During the course of this year we have spent significant time developing our strategic thinking and consulting widely on key areas including energy competition and sustainability. In addition, in June this year, we specifically developed and consulted on key issues that we felt should contribute to the development of our draft corporate Strategy, including challenges, opportunities, context issues, etc. Based on the previous work, alongside internal thinking and work planning, we note the following key drivers for our strategy:

Rising prices to consumers and the need for concerted action

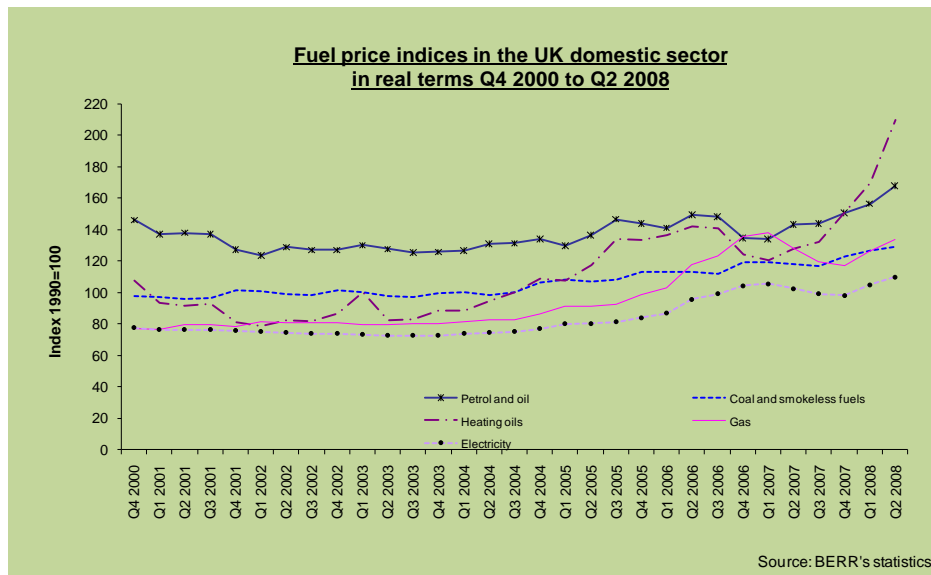
1.3.2. Across NI society, there is a growing awareness of the negative impacts that higher utility prices are having on already-stretched household budgets. At the same time there is a need to maintain as much downward pressure on business utility costs also for economic development reasons.



1.3.3. Recent years have been characterized by high and volatile wholesale energy prices. NI's relatively small size and its position at the end of long supply chains exacerbate the potential problem.

1.3.4. In addition, despite recent downward trends in wholesale costs, there are several factors which would indicate that longer-term fuel price pressures are

unlikely to remain substantially weakened – these include ongoing demand/supply tensions in the medium term, increasingly high targets for renewable generation, fuller pricing-in of the environmental costs of carbon to fossil fuels.



1.3.5. Our principal objective in electricity is to protect consumers' interests, and in gas it is to promote the development of an efficient, economic and co-ordinated gas industry, with consumer protection being given as a general duty. In water, electricity and gas we are required to have regard to the interests of vulnerable customer groups (including individuals with low incomes). We therefore have a clear basis for action to protect such groups, in balance with our duty to consumers in general; to date this has been evidenced by our track record of supporting **action against fuel poverty**. Linked to this issue, is the topic of tariff structures that address the needs of low income consumers. Although we feel that the Utility Regulator should not pro-actively lead initiatives on affordability tariffs – this should come from Government, we should be ready to respond constructively to others' initiatives. Northern Ireland has such high levels of fuel poverty that any initiative will need to be tightly targeted, which requires clear decisions about eligibility. Political leadership will therefore be essential. In energy, it would be important that DSD (Department of Social Development) and DETI (Department of Enterprise, Trade and Investment) were in alignment. It will also be important to us as a cross-utility regulator that any such policy initiatives in energy be designed bearing in mind decisions on water affordability tariffs, and vice versa.

1.3.6. As we move forward in terms of developing strategic priorities for the coming 5 years, the above reinforces the requirement on us **to continue to promote downward cost pressure on regulated companies** (particularly through the price control exercises) and to maintain efforts to **protect vulnerable customers**.

The benefits of boosting competition in the retail and wholesale sectors

1.3.7. Given cost concerns, alongside our primary duty on customer protection, we believe that increasing competitive forces in the regulated sectors, where it is cost effective to do so, can bring real benefits for consumers. In our strategy we wish to set out those areas of the wholesale and retail energy sectors where we feel there are future opportunities to **bring competitive pressures to bear to the benefit of consumers** (we consider that competition in the water/sewerage sectors is for the longer term). Future work on reviewing and where necessary improving the new SEM arrangements, ensuring as broad a range as possible of wholesale opportunities are open to market forces and increasing the opportunities for real and effective competition in the energy retail markets are key context challenges for us.

Environmental Sustainability

1.3.8. Environmental and sustainability challenges are key strategy drivers going forward. It has been commonly accepted that our current model of development, based on the erosion of natural resources and ecosystems, is unsustainable. The need for sustainability is even more pressing in the context of activities related to the emission of greenhouse gases, mainly CO₂.

1.3.9. The Utility Regulator has as its main duty the protection of customers and our approach to that role is wide, considering that protection should be given to all customers, both present and future. From this perspective, pushing our green agenda becomes a priority. To this end, we have consulted on our **“sustainability” strategy** and many of the issues covered therein form part of our Corporate Strategy thinking in this area – more on this further below.

Security of Supply issues

1.3.10. Directly linked to sustainability is the requirement for us to consider the way forward in relation to **the security of supply** agenda. Over a short number of years from now we can expect a wave of new electricity generation build on the island. Given fossil fuel price volatility and environmental considerations, we will need to take cognizance of the requirement to expand our power generation

opportunities to include **deeper use of renewable technology** and also brings in the issue of **enhanced gas storage** capabilities.

1.3.11. The energy security of supply issues are all the more complex given the long-term nature of the decisions and investments required, the fact that such investments are largely under the control of private companies and the increasing need to consider these issues on an all-island basis. The security of supply issues need to be recognized within our strategy planning as they arise in a number of important contexts, for example:

- (i) the future direction of fuel mix of our power generation where we already have a significant dependence on gas fired power and within the foreseeable future the potential need for new and additional generation capability for NI and how this requirement links to generation capacity and use for the island as a whole;
- (ii) the need to define the capability, optimum grid investment requirements and best practical way forward for enhanced connection of renewable generation, notably wind power, onto the grid and;
- (iii) also in the context of investigating options for additional gas storage capabilities for NI and for the island as a whole.

1.3.12. In **water**, security of supply, both in infrastructural and “quality” terms, are fundamentally important and drive a significant proportion of all required regulated expenditure. The main arena for the outworking of these issues in the water context will be the first price control of NIW – and the investment and asset investigation and requirements coming out of that.

The need to “harmonise” our strategy

1.3.13. We consider that a key contextual requirement for us is to ensure that our strategy and policy framework aligns closely with other related stakeholders.

1.3.14. There are several heavyweight examples of why we consider this important. These include: the benefits of co-operation and harmonisation of approach on energy issues with the RoI to unlock scale advantages, increase attractiveness for investment, reduce operational costs, etc; the requirement to harmonise our evolving regulatory approach to water regulation with best practice regulatory developments in GB and with thinking and decisions coming out of local policy; the need to ensure our own policy priorities fit within, and are not thwarted by, actions and decisions taken at national or international/EU levels that do not take our own local situation fully into account.

The growing importance of EU-level factors to our work

1.3.15. This is a reality that will affect our strategic approach in several ways.

1.3.16. Cross-border trading and regulation is one of the new developments in regulation across a number of sectors. It sets a key growing context for our work. For example, there is the strong EU element in how communications services are now regulated and postal competition is being driven largely by EU directives. Of even more relevance, energy prices in the UK have probably been affected over the last few years as much by developments in Continental Europe as by other factors. In relation to our water and sewerage sector, our context is influenced by the Water Framework Directive, Urban Waste Water Treatment Directive, Drinking Water Quality Directive and EU driven targets for improving water and wastewater quality and treatment.

1.3.17. On another front, we know that EU legislation is going to be a main factor in setting the UK's targets for renewable generation. Also, it seems likely that forthcoming EU legislation will strongly reinforce the cross-border nature of energy regulation, requiring the single European market to become an objective of national regulators and giving the EU level some influence over the national level regulatory agenda.

1.3.18. Moving to another policy area, liberalising energy markets has been a key goal for European regulation policy; however it has proven difficult to deliver first rate competition in NI and RoI energy markets – particularly at the domestic customer level. This is not an unusual difficulty in the wider European energy market context, and dissatisfaction with the progress towards energy market liberalisation across the EU has recently led the EU to issue the so-called “third package” proposals of further energy market and associated regulatory reform. As driven by EU obligations, pursuing higher levels of competition in energy markets and greater opportunities for customers to choose their suppliers will be a significant issue and challenge going forward, and will only be achieved through co-operation and joined up thinking with other stakeholders.

Technological and information advances

1.3.19. The technological background to our work and the industries we regulate moves quickly. In areas such renewable technologies and smart metering we are seeing fast progress in development and an emerging need to better grasp the implications for policy. This pattern will continue, if not accelerate in the years to come, and may well be accelerated by the growing move on the island towards competitive energy markets and the competitive pressures for development and innovation that go with that. Some of the attendant issues to fast-paced change can be complex. For example, in relation to smart metering, issues such as the

needs of demand side management, environmental concerns, desire for enhanced tariff options, enhanced customer information, etc, all come together in one technological issue – hence the complexity, but also an opportunity which we are keen to avail of.

The need for us to run a fit-for-purpose office

1.3.20. The Utility Regulator has been undergoing a significant restructuring over the last year. It is intended that the internal reforms will continue to bed in and result in an improvement of quality and accountability in financial processes, the revision of human resources policy and communications approach and the devising and operating of our processes to demonstrate value for money.

1.4 Our Strategic Themes

1.4.1. In light of the drivers and challenges discussed above, we have identified the key strategic themes which, taken together, frame the direction of our proposed Corporate Strategy. We discuss these in this section. In subsequent sections of this document these priority themes are then further refined and sharpened, through into **our sectoral priorities** and then on to the **more detailed actions** within our FWP.

1.4.2. We are aware that it is potentially the case that at times there may be **tension between our strategic priorities**. We note the need to guard against complacency on this. For example, it is possible that in the pursuit of further and effective competitive pressures, there may potentially be implications for costs and margins in the short term that offset the gains from competition, or there may be circumstances in which particular customer groups (possibly those most vulnerable) fail to benefit from competition. Another area of potential tension arises for example in relation to environmental sustainability concerns and resulting investment demands for our regulated utilities; and their interface with our price control processes where we are seeking to minimise costs for consumers. We wish to note explicitly that it is our intention to seek to identify these tensions where they arise and, through consultation and work with our stakeholders, transparently and realistically tackle these tensions to identify optimum courses for action for our Workplans.

1.4.3. At a high level, **the protection of customers is at the heart of what we do** and why we exist. It is the broad umbrella across our duties and functions. However, to make this more concrete and deliverable in terms of a Corporate Strategy and Forward Work Programme, this high level purpose can be pared down into a number of key themes determining our overall work strategy – we identify and discuss **seven** below.

- H. Protecting customers by ensuring utility monopolies act efficiently.**
- I. Environmental Sustainability and Security of Supply.**
- J. Protecting vulnerable customers.**
- K. Boosting competition in wholesale and retail sectors.**
- L. Harmonising energy markets and use of infrastructure.**
- M. Evolving our Regulatory Framework.**
- N. Our own Organizational development.**

1.4.4. The themes have been identified during and as a result of the significant

formal and informal consultations we have undertaken over the last few months. We have noted that they also reflect broadly the themes that we have identified as common across several of our key stakeholders and fellow Regulators.

However while we are encouraged by this, we are not complacent; we consider that we can add specific value by ensuring that our strategy and actions very much take account of our own local circumstances and specific sectoral issues where necessary.

1.4.5. Through this consultation we are keen to be transparent about our proposed themes and how they can interact in the future with the strategic direction of our stakeholders. We note in particular in this regard: the upcoming Strategic Energy Framework (SEF) development work being initiated by DETI; the ongoing review of “water” strategic issues being undertaken by DRD and the Executive in light of the Independent Review; and the review of our Social Action Plan which is discussed more fully below. Also, where necessary, we will consider changes in our final Strategy and FWP paper in light of the current review being undertaken by Douglas McIlDoon on NIE Energy prices.

A] Protecting customers by ensuring utility monopolies act efficiently.

1.4.6. Within our statutory remit and where competition itself does not protect customers’ interests (particularly in terms of placing downward pressures on costs and enhancing innovation and quality of service), control of monopoly business areas through **effective and timely price control exercises** is a key goal. In the coming strategy period we will devote significant resources across the gas, electricity and water sectors to scrutinizing and controlling the costs and prices of the monopoly regulated utilities and ensuring regulated entities meet their licence obligations at least cost and with due regard to environmental, safety, innovation and social requirements. Often it is the case that within price/cost control exercises, issues relating to wider policy areas, for example **sustainability** and **security of supply** (both discussed in their own right as a separate theme below) come into play. We note these here for completeness and to recognize the cross-cutting natures of our price control work - we will seek to ensure that decisions within our price control exercises align fully with our strategic goals in these other arenas.

1.4.7. In particular, bearing in mind the **new and evolving water regulatory regime and price control framework**, formulating the preparation and implementation of the first Price Control cycle from 2010 and the development and application of the subsequent 5 year Price Control cycle must be key priorities in the coming period and will help ensure the establishment of an effective regulatory regime for NI Water. Clearly, at the time of drafting this consultation, key considerations in relation to issues such as future charging and metering frameworks remain

to be decided upon by the *Executive in light of the Independent Review*. We will of course engage constructively with the relevant players when these decisions become known so as to understand the implications for our role and work interfaces with DRD and NIW – it is very important that there is an agreed and joined-up view of the policy goals that the various stakeholders wish to achieve in relation to the operation of the new water company and what this implies for regulation and enforcement. However, we already know that new relationships (both informal and statutory-based) have to be forged with many key stakeholders including NIW, environmental regulators, DRD, CCNI (Consumer Council for Northern Ireland), Customers, Assembly Committees, Ministers, etc. Also there are many different factors that come into play and important policy goals that need to be worked on and bedded in. These include such significant factors as: NIW organisational change, financing issues, long-term investment planning, customer charging, customer standards, implications of environmental considerations around water & sewerage, customer metering, data systems and reporting, etc.

1.4.8. In the absence of competition, it is imperative that regulated utility customers have confidence in the determination and control of regulated **standards of performance**. During the Strategy period we intend to reinforce our work in this area across each of the regulated utilities and learn lessons for best-practice in a cross-utility manner.

1.4.9. Also coming in broadly under this theme we note that issues around the framework of **utility financing** have arisen during the past period and will also need to be part of our work going forward. With customer protection in mind, and given that several of our key regulated assets now lie outside of public and shareholder-owned private companies, the role and extent of the “mutualised” highly geared financing model will need further consideration in light of ongoing review of the governance and operation of existing mutualised assets. There may also be wider issues arising in the context of differing forms of ownership and what this implies for example for financial ring-fencing arrangements and management incentives on efficient operation.

B] Environmental Sustainability and Security of Supply

1.4.10. We have consulted heavily in this area during the year and this is discussed in later sections more fully and particularly the second decision paper attached to this document. We have many challenges and work commitments to meet in this area going forward. There is an increasing awareness that **sustainability and environmental challenges** are becoming one of the main threats to future generations and present customers. The effects of climate change will result in significant

challenges, many of which lie in national and international arenas as well as our own, including: pricing of fossil fuels to reflect carbon content, assessing and delivering the optimal mix of power generation and end-fuel use, increasingly aggressive targets for the share of renewable in electricity generation, and the grid and technical implications of significantly enhanced renewable energy production, notably wind power. In terms of water and sewerage, the issue will impact prices through increasing imposition of higher standards of treatment for both water and sewerage whilst attempting to offset carbon emissions. Compliance with European Directives is a significant focus with the **Water Framework Directive** being instrumental to future strategies and approaches.

1.4.11. The **expansion of the natural gas industry** within Northern Ireland is still a relatively new development and one which we will seek to renew effort on during the Strategy period. (We include this under the Sustainability heading, though it might have been labelled separately). The reasons to promote are mainly focused on environmental benefits, since gas is less environmentally damaging compared with coal and oil. There are also economic reasons to promote gas, such as increased choice for customers and diversification of energy sources. Finally, there is of course our statutory duty to promote the development of natural gas as set up in the Energy Order 2003. However there is a real danger that during the Strategy horizon the further development of the natural gas sector in NI may not happen as quickly as we may wish. Further extending the gas network beyond those areas already served will be costly, even if it can be proved of overall benefit to do so. Deepening connection rates in those areas already linked to the gas network may also be problematic in a world of high and volatile wholesale prices – though this may be helped by the relatively low carbon emissions from gas and in a world where fuel prices will probably increasingly “price-in” carbon emissions. We believe there is a need to look afresh at this area and act in concert with DETI and other stakeholders to decide on the options and best way forward.

1.4.12. During the course of our work this year and also in relation to our various strategy consultations, **metering issues** arose several times and will require some resource over the coming Strategy horizon. (We include metering under the sustainability theme as metering issues can directly affect sustainability key areas and goals). Within water, metering policy will be influenced by the Executive considerations of the Independent Review. In relation to energy, the future role and best use of **smart metering** technology and the implications for “smart networks” in the NI and all-island energy perspectives needs to be better researched and understood – existing pilot schemes and initial research needs to be completed and next steps understood. Over and above smart metering per se, meter technology and use can have important implications for customers and the sustainability regulatory framework, e.g. in terms of **transparency of use** and data, **demand side management** and **time of day charging** regimes, also more

widely as a payment technology and as an aid to facilitating competition. We feel there may be merit in further work on our part in these areas to cohesively understand the implications, particularly if they are of a cross-utility nature. Our work on metering issues also needs to align with separate but related future work areas including particularly our other sustainability priorities.

1.4.13. An extra facet of sustainability relates to security of supply considerations. It is clearly important to ensure that the regulated utilities and markets operate in such a way as to ensure **long-term sustainability in the generation/production, network delivery and supply of the fundamental utility products and services.**

1.4.14. The industries we regulate – electricity, gas and water/sewerage are core to our economy and society and provide services fundamental to the well-being of customers. Our planned delivery against this theme is evidenced across several aspects of our work. A few key examples: **price controls** – base asset requirements, network maintenance and reliability issues, and the fitness for purpose of regulated entities' plans are part of the overall assessment made of regulated performance and expenditure requirements; **expanding natural gas opportunities** more widely across NI customers offers fuel choice for households and business customers, while taking forward the future challenge of introducing **gas storage** options and licensing into NI's system will enhance security of supply options; delivering **enhanced levels of renewable generation** and the future for network operation in a world of much **higher input from renewable technologies** (notably wind generation) will also add to security of supply (assuming proper consideration of back-up generation requirements) in a scenario of more volatile prices for traditional power generation fuels, reflecting increasing demand tension and possible supply concerns.

1.4.15. In the water sector security of supply will be addressed by the development of comprehensive **water resources management plans** which will be submitted by the company and reviewed. Additionally we will review methodologies and set targets for achieving NI Water's **economic level of leakage.**

C] Protecting vulnerable customers

1.4.16. One of the biggest concerns at present is the impact of high fuel prices on both domestic and business customers. Latest indications, even prior to recent energy price rises, were that over one third of all households in NI are in fuel poverty. The main reasons for **fuel poverty** are found in poor thermal efficiency of the dwelling, low household income and increasing fuel prices driven largely by wholesale fuel input prices

determined outside NI. In addition, there is currently a degree of uncertainty as regards the timing and level of future water and sewerage charges to customers in NI. It is important to work in a joined up way with wider Government to seek to protect vulnerable customers from the impact of rising charges. We intend to devote resource to this in the coming strategy period, for example through our participation in the **Fuel Poverty Taskforce**; through our **Social Action Plan** (which we are currently reviewing across each of the three regulated sectors and which we will seek to have in place and implement in 2009/10); and to better understand with wider government the issues and options around **social and affordability tariffs**. Clearly other priority areas already mentioned above (for example our control of monopoly charges and our work on boosting competition) will also contribute to this policy area.

D] Boosting competition in wholesale and retail sectors

1.4.17. At a time of great concern over high and volatile energy prices, consumers can benefit from having access to openly competitive supply markets and a real choice of suppliers and products. Where it is appropriate and cost-effective to do so, and to further protect customer interests, we shall seek to **further boost competitive pressures** in the regulated sectors. We consider this to be more relevant to the gas and electricity sectors in the coming Strategy horizon than the water sector – this point was endorsed heavily during our consultation work this year by various respondents. We consulted on these issues in the **energy retail** context during the course of this year and the issues and actions flowing from that thinking are discussed in later sections and particularly the Decision Paper attached to this consultation (**Decision Attachment One**).

1.4.18. Briefly, the proposals entail actions across a number of areas including: clarifying our policy goals in terms of energy retail competition; engaging with CER on retail market harmonization workstreams; changing current supply price control arrangements and the incumbent regulatory framework; switching system work; broadening market opportunities (e.g. expanding gas availability); dealing with any data transparency issues that might potentially slow competition, etc. In parallel to this consultation, we will be taking forward discussions with CER to better understand workstreams that may be taken forward jointly, and the necessary timelines and management arrangements for these. Final decisions on this will not be taken until after consultation responses have been assessed. The draft actions identified in the first Decision Paper attached is our initial view of how we might deploy our resources so as to deliver our strategic intent. It will be refined over the coming months, in the light of responses to this consultation, and also further work by the SEM Committee and the CAG Steering Group, and in the light of DETI's forthcoming consultation on the

Northern Ireland Strategic Energy Framework. We very much welcome views from respondents on the outline workstreams and timetables.

1.4.19. There are also several key issues related to enhancing competitiveness and liberalisation at the wholesale end of the regulated sectors that will influence some of our work priorities in the coming strategy horizon. (Some of the relevant issues here are already covered elsewhere, e.g. price control and all-island energy priorities). For example, with the RoI Authorities we need to review and ensure that the **SEM wholesale electricity arrangements** are functioning properly and seek to amend and improve on them if and where necessary. We also need to identify if and how the SEM mechanisms might need to alter to allow for future energy developments over the Strategy horizon and even beyond, e.g. the increased focus on renewable, and particularly wind, generation technology and the impacts on network planning and operation.

1.4.20. Other Wholesale-related issues (that may also benefit the development of retail competition) include the need to **consider how best to promote a more developed and liquid hedging and contract market within SEM**. In gas, as mentioned above, the development of **gas storage** is a key issue that will arise during the strategy horizon – we need to prepare for this in terms of understanding and putting into place the necessary legislation and licensing implications and other regulatory control functions required.

1.4.21. A final wholesale related issue to be mentioned here is the need for review and assessment of the optimal way forward in relation to **the future of the long-term Power Purchasing contracts**.

E] Harmonising energy markets and use of infrastructure

1.4.22. In recent years the Utility Regulator has been working with the relevant Government departments, CER (the energy regulator in the RoI), and the industry stakeholders to progress work on energy issues that can lead to gains for customers when pursued jointly. The work programme in which we have been participating emanates out of the 2004 All-island Programme (AIP) Framework document agreed by the two Governments and has included the successful implementation of **the Single Electricity Market (SEM)** in November 2007. Also, in the gas sector the current work programme is aimed at developing **Common Arrangements for Gas (CAG)** whereby all stakeholders can buy, sell, ship, operate, develop and plan the natural gas market north and south on an all-island basis. Already there are embryonic plans that in the coming period, options for **market synchronization and retail harmonisation in both electricity and gas markets North and South** will be considered and where beneficial

progressed – this is discussed in more detail in the retail competition Decision Paper (first attachment to this consultation).

1.4.23. In terms of the development of this Corporate Strategy consultation, it is clear that **the programme of harmonising energy markets and use of infrastructure on the island** will continue to influence many of our decisions and our planned priorities over the coming work planning horizon. In particular, the future direction of travel of the all-island energy work programme will be heavily influenced by two factors being developed in parallel to our own consultation. The first is the DETI Strategic Energy Framework (SEF). The second is the development of the SEM Committee's workplan.

1.4.24. These will allow more detailed consideration and clarity on the work programmes relating to the future development of SEM and other electricity arrangements, the development of common regulatory and industry arrangements for gas, and allow updated thinking on the development of renewable and in particular wind opportunities on the island and the best way forward for handling the grid planning and operation implications of that.

1.4.25. Clearly our own Corporate Strategy needs to align with and influence, and be influenced by, the development of these two factors as they come to fruition. We are currently working directly with the two Governments and our fellow energy regulator in the RoI (Republic of Ireland) to ensure this is the case. By the time we come to finalise our Corporate strategy document, these factors will have been clarified and their implications for future work priorities better understood.

F] Evolving our Regulatory Framework

1.4.26. We consider that there are a number of regulatory issues requiring some priority which we've placed under the theme of evolving our regulatory framework. Two key identified issues fall here as influencing future Strategy and work prioritisation: EU policy direction and Directives; and Competition Law and powers.

1.4.27. Across the utility sectors, **EU law and policy** provides a crucial framework around many of our regulatory approaches and relevant government policy: e.g. on market liberalisation and utility "unbundling". We will need to ensure that we continue to be aware of the policy and regulatory requirements here and put into place actions to deliver on the required policies and goals. **Directives relevant to the water regulatory framework** include for example all encompassing Water Framework Directive – we need to work with stakeholders to understand the resource

and investment consequences of these directives and the appropriate responses. During the Strategy work horizon, the full implications of the so-called **EU Third Package of energy market liberalisation reforms** will become known and will have to be transposed into our legislative and regulatory regimes. This will require careful consideration by our gas and electricity teams alongside industry stakeholders and DRD and DETI.

1.4.28. The existing bank of law and regulatory powers related to the **Competition Act, Enterprise Act and the Utility Regulator's concurrent powers** under the legislative basket is an area that remains relatively under-developed in terms of our existing regulatory approaches. To some extent this has been due up until now to the relative immaturity of our market structures compared for example to GB. It has also been due to the concentration of regulatory approaches on traditional regulatory techniques including licence enforcement and monitoring. We consider that in the coming strategic planning period we should seek to consider afresh our range of powers and functions and understand if they have applicability in relation to our regulatory framework which, to date, we may not have utilised. This work area will require considerable thinking, development and consultation before we move to firm actions and policy proposals, but we wish to highlight it here as a future theme to be developed.

G] Our own Organizational development

1.4.29. The Utility Regulator has been undergoing a significant **restructuring** over the last year.

1.4.30. We have put considerable resource into developing and improving our governance and business processes to further improve performance, and have taken forward significant work on equality, HR, IT and Communication aspects. It is intended that the **internal reforms** will continue into the Strategy period and will result in a further improvement of quality and accountability in financial processes, ongoing development of our strategic approach to policy and actions, the revision of our **human resources policy** and communications approach and the devising and operating of our processes to demonstrate **value for money**. We report on the related actions in subsequent sections.

PART TWO

Forward Work Programme 2009-10

Introduction to FWP

The Utility Regulator has finite resources to deliver our statutory duties and functions and to contribute to the delivery of policy objectives set by Government. This requires us to carefully consider and select those actions which we consider to be priorities for inclusion in our Forward Work Programme (FWP). Following inputs from all Directorates within our organisation, with the benefit of the Strategy consultations undertaken this year, and in light of the discussions in Part One of this consultation, we have developed this draft Forward Work Programme for consultation.

2.1 Turning Strategy into Action - Sectoral Priorities

2.1.1. Our proposed strategic priority themes are set out in section 1.4 above of our draft Corporate Strategy. In the following sections we outline how we think those themes set the framework for the planned work of our individual Directorates. This allows a clear and transparent trace through from our strategic themes into our Directorate-level sectoral priorities and then our intended actions as set out in section 2.2 below.

A] Water

2.1.2. The Utility Regulator received its statutory duties for water and sewerage regulation in April 2007 with creation of NI Water as a government owned company. We have been building a Water Directorate team and developing regulatory processes for NI Water since April 2007. With regulation come improvements in transparency and accountability which benefit all stakeholders and customers.

2.1.3. The **protection of the customer** is the most dominant theme for this initial and developing phase of water reform. The themes of **sustainability, security of supply** together with climate change and **compliance with European Directives** are also important aspects embraced in the Price Control 2010.

2.1.4. The strategic theme regarding the further **evolution of our regulatory framework** is also clearly highly relevant to our sectoral direction on water regulation as we bed down new regulatory approaches and understand the implications of **EU Directives** for our regulatory considerations. Our **organisational development** theme includes our focus to deliver in a one team ethos and working alongside other directorates.

2.1.5. There are two main sets of data submission from the water company to the regulator that provide the basis for regulation. These are the Annual Information Return (AIR) and the submissions relating to the overall cost and price control.

The Annual Information Return (AIR)

2.1.6. The Annual Information Return is the principal information submission that NI Water makes to us. The return includes information about customers, assets and financial performance. It also covers progress on the agreed investment programme. NI Water's AIR will be submitted to the regulator some months after the financial close and following detailed analysis we will publish a cost and performance report on the company before the following year end.

Overall Cost and Price Control from April 2010 (PC10)

2.1.7. Under current legislation, from April 2010, the Utility Regulator will be responsible for determining the allowed revenue such that the real investment needs of NI Water can be met. It is vital that the investment, which is planned, brings about overall improvements in water quality, the environment and service standards, for the benefit of its customers. This must be done efficiently and effectively, delivering best value for money to the customers.

2.1.8. The overall cost and price control process is the core of the new regulatory regime for Northern Ireland's water industry in that it aims to ensure that the monopoly supplier acts in the interests of customers. All aspects of the business of NI Water are addressed and the objectives to be delivered are tailored in light of the costs, customer needs and the environment.

2.1.9. In promoting customer interests we aim through Price Control 2010 (PC10) to:-

- Set budgetary limits consistent with environmental improvements, addressing historic under-funding and ensuring that future generations are required to pay only for the service that they receive;
- Further advance the introduction of management information parameters, which will allow for consistent efficiency targets to be set for NI Water and for proper comparisons to be drawn for benchmarking purposes;
- Advance the development of a common asset management process to provide transparency and allow the customer to be confident that best value in procurement and maintenance is achieved;
- Assist in the creation of a customer service vision of a future where the needs of the individual customer categories are met to a greater extent than hitherto.

2.1.10. The Price Control 2010 includes consideration of the issues critical to the water industry at its present stage of development. The critical issues identified include:

- Sustainability, balancing the needs for the customers of both today and tomorrow.
- Scope for environmental improvements.
- Scope for driving efficiency.
- Reliability and comparability of data.
- The management of risk.

2.1.11. It must also embrace policy decisions from the NI Assembly, critical issues include:

- Financing NI Water – charging policies.
- Affordability – social policies.
- Water Reform – independent review of water reform consultation.

2.1.12. To be successful, the process requires effective consultation and a collaborative approach among a number of different stakeholders in the industry. Engagement with statutory stakeholders is well advanced with working groups having been established. A programme of work is also well defined with proposed consultation periods identified.

2.1.13. Statutory Stakeholders for the Water industry, include the Department for Regional Development – (Policy Unit and Shareholder Unit); Quality Regulators (both the Drinking Water Inspectorate DWI and the Northern Ireland Environment Agency); the Department of the Environment (Policy Unit) and the Consumer Council for Northern Ireland and of course the company, Northern Ireland Water.

Other Activities and Duties

2.1.14. In discharging our duties and in ensuring the company complies with its licence there are many other activities which we carryout, including:

- Advise DRD Minister on the amount of revenue that NI Water needs to provide a sustainable service to customers and to fund its investment programme;
- Consider and approve NI Water's annual scheme of charges;
- Determine on complaints which are not resolved by the company or the Consumer Council;
- Advise DRD Minister on NI Water's annual costs, performance and scope for efficiency improvements;
- Protect consumer interest when approving land disposals by ensuring "best price" from their sale;
- Contribute to sustainable development;
- Provide advice, when requested by the NI Ministers, on a range of matters relating to the impact of NI Water on its customers.

B] Gas

2.1.15. The Utility Regulator's principle objective to promote the gas industry in Northern Ireland has resulted in significant developments over the last 5 years with the construction of the SN and NW pipelines and the associated development of the ten Towns along the route.

2.1.16. The next five years offers further opportunity to develop the industry with the potential for storage facilities, harmonisation of the industry on an all island level and consideration given to further network expansion as well as increasing connections within areas already serviced. We will also use the period to bed down regulatory arrangements through developing a more structured and robust approach to monopoly price controls with the creation of a detailed ongoing cost reporting matrix to provide improved scrutiny and transparency on network costs.

2.1.17. The more detailed workstreams discussed below have been organised consistently with the themes discussed earlier in this document:

Protecting customers

2.1.18. We will be implementing the Phoenix Distribution Price Control from 2012 and the next firmus Distribution Price Control from 2014. This will require intensive work on costs, incentives and policies from 2010. We plan to have a consistent set of cost reporting standards for both companies agreed in advance of the price control process. We will also work with our Cross Directorate team to ensure knowledge and information is shared across the organisation and price controls are carried out in the most efficient and effective manner.

2.1.19. Other work in this area will include the implementation of guaranteed service standards for the first time in the Northern Ireland gas industry and we will be working with DETI to ensure the legislation and implementation timetables and synchronised.

Sustainability and Security of Supply

2.1.20. We will continue to work with DETI and other stakeholders to promote the environmental benefits of gas compared to other fuels. This will include further analysis of the possibilities of extending the network to other parts of Northern Ireland as well as consideration of schemes and programs that could encourage increased take up of gas within gas services areas.

2.1.21. The increasing interest of companies looking to develop the Larne area

for gas storage has highlighted the need to ensure a relevant regulatory structure is in place in a timely fashion. We will work with the industry and department to develop a licence structure and tariff regime that will facilitate such projects.

Harmonisation of market arrangements

2.1.22. The Common Arrangements for Gas (CAG) project will continue to evolve and be taken forward over the next five years, where it delivers real benefits for consumers. The current plan is to implement a harmonised tariff and operations regime by October 2010. We will also be considering how customers could benefit from further harmonisation of the retail sector on the island.

Boosting competition

2.1.23. The Gas Market Opening Group (GMOG) will continue to work with the industry and stakeholders to identify and remove barriers to the development of competition. The period will include work on implementing appropriate IT systems to allow for efficient switching of customers. As discussed above, these developments will be considered alongside CAG work to ensure an optimal structure for customers.

Regulatory Framework

2.1.24. We are keenly aware of the importance of EU developments with respect to the gas industry both in the short term through the third package and in the long term through the goal to move to a single gas market in Europe. We will continue to invest resources in monitoring and influencing such developments.

C] Electricity

2.1.25. The Utility Regulator's principle objective with respect to electricity is to protect consumers and **wherever appropriate** to do so by promoting effective competition. A key focus over the last 4 years has been the establishment of the Single Electricity Market (SEM). This has resulted in single all-island wholesale market for electricity aimed at enhancing security and diversity of supply, encouraging market efficiencies and economies of scale and promoting greater competition. In parallel we have encouraged greater competition at the retail level with completion of non-domestic market opening 2005 followed by domestic market opening in November 2007.

2.1.26. The challenge over the coming years is to ensure that the SEM continues to meet its objectives through the provision of a stable market with transparent and equitable trading arrangements. A measure of that success will be the continuing attraction of new investment in generation with an appropriate balance between conventional fossil fuel and renewable generation. A significant challenge, both at the Northern Ireland and at the all-island level, will be the development of effective retail competition particularly for domestic and small business customers. Experience of more than ten years in the larger GB market has shown that the development of retail competition at the domestic level is not without its difficulties and we will need to learn from this experience in what is a relatively small market even when considered at the all-island level.

2.1.27. The more detailed discussion below has been organised to reflect the themes discussed earlier in this document:

Protecting Customers

2.1.28. We will be completing price controls for the Market Operator for the period commencing 1 October and for SONI for the period commencing 1 April 2010. In line with the capex monitoring provisions agreed in the 2007-12 Price Control for T&D we will continue to review the scope for efficiency savings and ensure that these are reflected annually in agreed revenues requirements and ultimately tariff reviews.

2.1.29. Following the successful outcome of a JR earlier this year we will commence consideration of whether or not cancellation of the Kilroot contract is in the interests of customers with a view to consulting before the end of 2009/10.

2.1.30. We will also complete, potentially for introduction from 1 October 2009, a programme of work on the options and feasibility of introducing social tariffs.

2.1.31. In light of our recent experience of extreme market volatility in fuel prices and currency movements we will review the purchasing and hedging strategies of PPB and NIE Energy.

Sustainability and Security of Supply

2.1.32. We will complete a cost benefit analysis to determine smart metering implementation policy. This will largely utilise studies being currently carried out in GB and RoI. Consideration will also be given any distinctive Northern Ireland circumstances including the considerable investment in key-pad meters in Northern Ireland as well as the scope for synergies emerging from any decisions on the further roll-out of gas and introduction of water metering.

2.1.33. In conjunction with CER we will review our policies on demand response with the aim of developing a coherent set of arrangements covering smart grids, demand side management/smart meters, aggregation of generation and demand reduction and energy efficiency.

2.1.34. We will work closely the network owner and DETI to plan and deliver a Grid Development Strategy for Northern Ireland and to implement necessary network developments.

2.1.35. We will commence with DETI, DCENR and CER the production of long-term arrangements for security of supply on an all-island basis.

Harmonisation of Market Arrangements

2.1.36. We will develop and implement with CER arrangements for harmonisation Generator Transmission Use of System (GTUoS) charges and loss adjustment factors.

2.1.37. We will also explore with CER the feasibility of alignment of Trading and Settlement Code and tariff years.

Competitive Markets Development

2.1.38. We will continue to work with CER under the aegis of the SEM Committee on ensuring the effective operation of the SEM including ongoing market monitoring to tackle dominance and market abuse.

2.1.39. Following consultation in the second half of this year, during 2009/10 we will implement an appropriate policy for dispatch and pricing of wind in the SEM.

2.1.40. Following the NIAUR consultation on retail strategy this year we will work with CER to develop a strategy, where feasible, to develop more effective arrangements for retail competition on the island of Ireland.

D] Corporate Affairs

2.1.41. Alongside NIAUR's three regulatory Directorates – water, gas and electricity – we have a Corporate Affairs (CA) Directorate which is responsible for: environmental and social matters; strategy development; communications; finance and administration; and complaints and disputes handling. As regards non-routine elements, we report here briefly on the highlights of key future priority work areas for this Directorate.

2.1.42. We have discussed above the importance of **environmental sustainability** and **protecting vulnerable customers** in respect of future key work areas and strategic priorities. In relation to our **Environmental and Social** work areas, several key action areas are already recorded under the sectoral Directorate discussions above. In relation specifically to Corporate Affairs, there are some important sustainability and social work areas that we will seek to give strategic priority to:

- We will need to prioritise work with DETI to ensure that the existing schemes (NIRO, CCL and REGOs) continue to operate smoothly alongside SEM mechanisms.
- We will seek to ensure full implementation of the findings of the current review of the Energy Efficiency Levy.
- To help with data transparency in meeting environmental considerations, we will seek with CER under the SEM structure to establish an effective system of fuel mix disclosure
- As noted elsewhere above, energy price issues and the implications for customers are to the fore. We will give priority to working with Government to address fuel poverty issues to ensure that it is being effectively targeted and addressed where we can positively influence it.

- We shall seek to work with DETI and other stakeholders as necessary in relation to policy formation in relation to renewable and community heat and monitor impact in regulated companies.
- We shall aim to finalise the review of Social Action Plan and have this complete early in 2009; and move to fully implement the action plan during 2009/10 (see text box below for more details of our upcoming work on Social Action Plan).

2.1.43. In relation to the **organizational development** priority theme, the Corporate Affairs Directorate has significant locus:

2.1.44. We will place some emphasis on having coherent and transparent communications plans in place as part of being an effective and efficient regulatory body. In relation to our **Communications** part of Corporate Affairs, key priority areas will include the development of our Stakeholder communications plan.

2.1.45. In relation to the **Strategy** development side of Corporate Affairs, one priority in the medium term will be the monitoring of the appropriateness of our Corporate Strategy and a fundamental and formal review of its applicability mid-way through the 5 year Corporate Strategy horizon. Other significant issues planned include the development of better knowledge and monitoring of European-led regulatory developments to better assess future impacts on our regulatory frameworks; and a review of our approach to supplier marketing to customers in an increasingly competitive energy retail environment.

2.1.46. In relation to the broad area of **administrative best-practice and the organizational effectiveness** of the Utility Regulator, we believe that there are several areas of priority work in the coming period, notably:

- To internally co-ordinate the work of our cross-utility working groups and ensure the appropriate knowledge dispersion.
- Further develop and implement best-practice procurement approach.
- To meet our statutory requirements in terms of delivery of resource Accounts, Annual report and delivery of internal Audit Report requirements.
- Implement and imbed best-practice HR structures and processes. We need to imbed full implementation of our HR strategy, including performance management, pay systems, Training and development needs, statutory equality commitments, etc.
- To further enhance our communications capability including the development of on-line communications.

Corporate Affairs progress on review of Social Action Plan

The Utility Regulator is currently developing a Social Action Plan for the period April 2009-March 2014 which will be published as a separate document to this consultation on a draft Corporate Strategy and Forward Work Plan. Actions contained within the Social Action Plan will be included within the final Forward Work Plan, covering all directorates, for the coming year.

The purpose of the Social Action Plan will be to set out how the Utility Regulator interprets its duty, within each of the areas of electricity, gas and water, to have regard to the interests of vulnerable customers. Our statutory duties specifically define those who are:

- Disabled or chronically sick,
- Of pensionable age,
- On low income, or
- Living in rural areas.

However, we are not restricted to just having regard to the interests of these groups and, in addition, have a statutory duty to promote equality of opportunity and good relations between the nine categories as defined in Section 75 of the Northern Ireland Act (1998). For the purposes of the Social Action Plan, the Utility Regulator will assume that a customer may be vulnerable if for reasons of age, health, disability, ethnic background, or severe financial insecurity they are unable to safeguard their personal welfare or the personal welfare of other members of their household.

One section of the Social Action Plan will look at what initiatives and processes are already in place to protect and assist vulnerable customers and ensure that they get utility services that are appropriate to their needs. In particular it will look at the specific needs of customers in relation to age, health, disability, rurality or ethnic background to see if more action should be taken by utility services to meet the needs of these groups. The main reason that the Utility Regulator has been given a statutory duty to have regard for vulnerable customers is that the provision of water is essential for life, while the provision on heat and light is essential for quality of life. There is evidence to show that in Northern Ireland individuals and families experience difficulties in paying for these essential services. Therefore, another part of the Social Action Plan will look at issues in relation to financial insecurity, affordability and the effect on those who have difficulty in paying energy or water bills.

To inform the development of a Social Action Plan the Utility Regulator, in partnership with CCNI commissioned a programme of customer research. The research had 3 strands:

- Quantitative research with general public - survey interviewing 1012 adults;
- Depth interviews with Section 75 representative organizations and energy advisory groups such as Age Concern, Disability Action and the Northern Ireland Fuel Poverty Advisory Group;
- Group discussions with customers on NIE Energy's Customer Care Register and focus groups with people under 60 who were in or at a risk of falling into fuel poverty.

The findings of the customer research will be discussed in detail in the Social Action Plan but the main conclusions were:

- Overall awareness of the initiatives put in place by energy companies to help customers with specific needs is low (even among groups targeted), resulting in low take-up. A range of channels to better promote these services was suggested, most popular being media advertisement or through community groups or services.
- Fuel poverty was high on the agenda, with customers and organizations citing the rising cost of energy and the fact that incomes are not keeping pace as the main reason for concern.
- Customers would welcome more energy advice – only 6% claim to have had an energy efficiency advice check.
- There were concerns over lack of competition for NIE in the domestic electricity market.

The research showed that, in general, customers were happy with the level of service provided by the energy suppliers but unhappy with rising costs. It also showed that customers would like better communication on the services that are available to them or any new services that may be rolled out.

The Social Action Plan will be further informed by interviews with stakeholders during its development. A draft plan will be published for public consultation in December 2008 and, subject to screening, an equality impact assessment will be undertaken before the final document is published in March 2009.

2.2 Our Proposed Action Priorities

2.2.1. The Utility Regulator has finite resources to deliver our statutory duties and functions and to contribute to the delivery of policy objectives set by Government. This requires us to carefully consider and select those actions which we consider to be priorities for inclusion in our Forward Work Programme (FWP). Following inputs from all Directorates within our organisation, with the benefit of the Strategy consultations undertaken this year and in light of the discussions in Part One of this consultation, we have developed the following table of actions that we intend to pursue in the coming 1-3 years. The table below is sorted by reference to the seven strategic priority themes identified in our Corporate Strategy. The 69 actions are each given a unique reference number for easy of referral. Note that Annex 1 of this Consultation paper presents the same actions (the reference numbers in Annex 1 remain as in the table below), but sorted instead by sector/Directorates with lead responsibility for each action.

2.2.2. Key to table:

E	Electricity Directorate in lead role
G	Gas Directorate in lead role
W	Water Directorate in lead role
CA	Corporate Affairs Directorate in lead role
Strategic Themes , as set out in the Corporate Strategy (Part One of this document):	
Monopoly regulation	A] Protecting customers by ensuring utility monopolies act efficiently.
Sustainability	B] Environmental Sustainability and Security of Supply
Protection	C] Protecting vulnerable customers
Competition	D] Boosting competition in wholesale and retail sectors
Harmonisation	E] Harmonising energy markets and use of infrastructure
Regulatory Framework	F] Evolving our Regulatory Framework
Organisational	G] Our own Organizational development

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Lead	Strategic theme	Projects	Actions to develop in 2009-10	Actions to develop in 2010-11 & 2011-12	Ref
Joint (All)	Monopoly Regulation	GSS	1. Water: Review introduction and timing of GSS following output from the Executive consultation. 2. Gas: Engage with DETI on legislation requirements for GSS. 3. Update GSS for electricity. 4. Complete survey research. Draft guaranteed and overall standards scheme in consultation with key stakeholders.		1
Joint (All)	Monopoly Regulation	Price control	Price Control for mutualised entities.	To consider the performance of the mutualised companies.	2
Joint (G / E)	Monopoly Regulation	Purchasing strategies	Review the economic purchasing obligations of regulated companies.		3
G	Monopoly Regulation	Price Control	Finalise work on creating a better process for monitoring network development and costs between price controls.	Consider future of Phoenix supply price control.	4
E	Monopoly Regulation	Price Control	SONI Price Control for period commencing 1 April 2010.		5
E	Monopoly Regulation	Price Control		T&D Price Control for period commencing 1 April 2012.	6
E	Monopoly Regulation	Price Control	SEMO Price Control for period commencing 1 October 2009.		7
W	Monopoly Regulation	Price Control Customer Views	1. Work with statutory stakeholders and in particular CCNI to ensure and confirm that NI Water's PC10 Business Plan reflects the views of its customers. 2. Publish and consult on draft determination.	1. Reflect on approaches for obtaining and incorporating customer views in Price Control process. 2. Work with statutory bodies, particularly NI Water and CCNI.	8
W	Monopoly Regulation	Price Control UR and NI Water Information Exchanges	Price Control – PC10 – the process and Programme for PC10 was developed in 2008/09 and spans from March '08 to December 2009. 1. Review and Analyse NI Water's PC10 Business Plan Submission to be delivered on 1 June. 2. Publish and Consult on Draft Determination August 2009. 3. Publish Final Determination December 2009. 4. Develop and Agree Monitoring Plan for PC10 by March 2010.	1. Review PC10 process and data requirements. 2. Engage with statutory stakeholders on the approach to the next price control – PC12/13. 3. Develop and consult on overall approach to PC12/13 Price Control. 4. Define Programme for PC12/13.	9
W	Monopoly Regulation	Price Control Value for Money	1. Benchmark performance both in terms of standards of service and in terms of efficiency. 2. Set challenging efficiency targets for both Operational and capital spend. 3. Establish principles of regulation to incentivize NI Water to out perform and deliver for the customer.	1. Review data requirements and methodologies. 2. Review data trends. 3. Define methodologies and information requirements for PC12/13.	10
W	Monopoly Regulation	Water regulation	1. Render NIW licence fit for purpose: amend Condition B: Charges. 2. Review licence for Water Resale Order.	Ongoing monitoring of licence fit with political and regulatory realities.	11
Joint (G / E)	Monopoly Regulation / Sustainability	Connection Policy Review	1. Review Phoenix Distribution and firmus Distribution connection policies, taking into consideration any sustainability issues. 2. Review electricity connection policies, taking into consideration any sustainability issues.	Create competitive framework for electricity connections.	12
Joint (All)	Monopoly Regulation / Sustainability	Price control	Cross Directorate Group work on price control principles including as necessary sustainability issues.	To review customer protection in light of different financing models.	13
W	Monopoly Regulation / Sustainability	Price Control Ministerial Guidance	1. Work with statutory stakeholders and particularly DRD Policy Unit to inform the development of ministerial social and environmental guidance. 2. Upon receipt of social and environmental ministerial guidance, issue to company and ensure that NI Water's PC10 Business Plan reflects the ministerial guidance issued.	Work with statutory stakeholders and particularly DRD Policy Unit to inform the programming and development of ministerial guidance for PC12/13.	14

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Lead	Strategic theme	Projects	Actions to develop in 2009-10	Actions to develop in 2010-11 & 2011-12	Ref
Joint (G/ E / CA)	Sustainability	Contributing to wider government policy	1. Work with DETI and regulated companies in respect of interpretation and implementation of the DETI Strategic Energy Framework (SEF). 2. Work with DETI to help develop policies in relation to the renewable heat in Northern Ireland.		15
Joint (E / CA)	Sustainability	Fuel Mix Disclosure	Establish effective system for Fuel Mix Disclosure.	We will review the format of environmental information on bills and if necessary seek to make improvements.	16
Joint (G / Legal)	Sustainability	Gas Storage	Work with DETI on creation of storage licence conditions.		17
Joint (All)	Sustainability	Keeping our own house in order	1. Set up staff group to gain staff buy in for improving our energy efficiency and reducing our impact on the environment.		18
Joint (G / E)	Sustainability	Smart Metering	Complete cost-benefit analysis to determine smart metering implementation policy. Consider the best way to factor in the benefits of smart metering in the provision of tariff and usage information to customers and also back to suppliers and network operators.		19
Joint (G / E)	Sustainability	Publishing more evidence	Consult on energy annual report.		20
Joint (CA / Legal)	Sustainability	Renewables	Consider implications of the draft of Renewables Directive 2009.		21
Joint (W / Legal)	Sustainability	Urban waste water treatment	Bi-annual or quarterly Monitoring of Urban Waste Water Treatment Regulations and Enforcement		22
G	Sustainability	Gas development	Engage with Government and stakeholders to examine the feasibility and options to accelerate the roll-out of gas, both in existing and new areas. Consider further extension of the gas transmission network that could bring gas to new parts of Northern Ireland.		23
W	Sustainability	Price Controls	PC10 – Consideration of the following aspects as reflected in NI Water's PC10 Business Plan and as already discussed with Statutory Stakeholders and reflected in Ministerial Guidance: 1. Educational Funding to support the efficient use of water. 2. Schemes to reduce energy consumption and associated carbon footprint while delivering a better whole life cost. 3. Sustainable Urban Drainage Systems. 4. Carbon Accounting. 5. Climate Change.	In addition to the measures being discussed for PC10 we will in additionally be asking the Company to submit a 25 year Strategic Direction Statement for PC12/13. This will also support environmental sustainability strategies.	24
W	Sustainability	Water Resource Management	1. Review of NI Water's water resource management strategy contained with PC10 Business Plan Submission. 2. Review of leakage methodologies and targets for achieving an economic level of leakage.	1. Liaise with DRD Policy Unit to define the programme for NI Water to formally submit a water resource management Plan. 2. Continue to monitor performance and review leakage targets.	25
W	Sustainability	Review Performance	Consider and develop monitoring and benchmarking processes for performance against sustainability indicators.	Consider and develop monitoring and benchmarking processes for performance against sustainability indicators.	26

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Lead	Strategic theme	Projects	Actions to develop in 2009-10	Actions to develop in 2010-11 & 2011-12	Ref
W	Protection	Enforcement	As appropriate if company data is inadequate or it's performance is poor.	As appropriate if company data is inadequate or it's performance is poor.	27
W	Protection	Review of Regulatory Accounts	1. Review of NI Water Regulatory Accounts after submission on 15 th July 2009. 2. Monitor and analyse accounting policies.	1. Review of NI Water Regulatory Accounts after submission on 15 th July. 2. Monitor and analyse accounting policies.	28
W	Protection	Annually Review and Approve NIW Scheme of Charges	1. Consider approval of NIW Scheme of Charges - Process Oct '09 to Feb '10. 2. Publish Report on NI Water Scheme of Charges.	1. Consider approval of NIW Scheme of Charges – Process Oct '09 to Feb '10. 2. Publish Report on NI Water Scheme of Charges.	29
E	Protection / Sustainability	Social tariffs	Complete initial work on social tariffs. Subject to ministerial buy in/feedback from stakeholders on the consultation, operationalise new social tariff design.		30
W	Protection / Sustainability	Annual Reporting	1. Issue and publish Annual Reporting Information Return Guidance to NIW – 31 March 2009. 2. Analyse NI Water Annual Information Return (AIR09) to be submitted on. 3. Publish Annual Cost and Performance Report January 2010. 4. Review annual land disposal return.	1. Issue Annual Reporting Information. Return Guidance to NIW. 2. NIW Submit Annual Information Return. (AIR10) 3. Publish Annual Cost and Performance Report. 4. Review annual land disposal return.	31
W	Protection / Sustainability	Monitoring Performance	1. Quarterly Capital Investment Monitoring. 2. Monitor and report on NIW emergency planning and incident reporting.	1. Review Procurement Plan. 2. Monitor and report on NIW emergency planning and incident reporting.	32
CA	Protection / Sustainability	Encouraging energy efficiency	Implement decisions from the review of Energy Efficiency Levy (EEL).		33
CA	Protection / Sustainability	Social action and fuel poverty	Finalise and implement Social action plan, continue to contribute to wider policy development in relation to fuel poverty through involvement in fuel poverty advisory group and interdepartmental group on fuel poverty.		34

Lead	Strategic theme	Projects	Actions to develop in 2009-10	Actions to develop in 2010-11 & 2011-12	Ref
Joint (G / E)	Competition	Branding separation	Begin policy development on branding separation in electricity and gas.	Finalise plans for full branding separation in the electricity and gas sectors. Market report to place particular focus on effectiveness of branding separation.	35
Joint (G / E)	Competition	Data availability	1. GMOG and SIG to finalise list of data availability issues and action plan to address (this having already been extensively discussed). 2. Consultation on any necessary licence changes.		36
Joint (E / Legal)	Competition	Kilroot contract	Following JR consider approach to consideration of contract cancellation options. Consider consultation on any decisions on future PPA contract.	Decision on PPA contract.	37
Joint (G / E)	Competition	Long-term customer contracts and incumbent response		Review role of long-term customer contracts in retail markets.	38
Joint (G / E)	Competition	Metering		Review contestability of meter reading market.	39
Joint (G / E)	Competition	Overall programme	1. Consider the impacts of our retail competition action plan on consumers and industry. 2. First annual Retail Market Report.	2. Second annual Retail Market Report.	40
Joint (G / E)	Competition	Procurement/tariffs	1. Complete review of K factors and tariff structure (gas and elec). 2. Consult on alternative approaches to regulation of supply tariffs. 3. Decision document on revised approach to supply tariff regulation. 4. Implement necessary licence changes.	3. Implement new supply tariffs.	41
Joint (G / E)	Competition	Switching systems	1. Work with GMOG to develop a system specification and review options to deliver it. Delivery on timetable as appropriate. 2. Plan implementation of enduring solution in electricity.	Systems implementation: implementation of gas and electricity switching process (the second one may last > 1 year).	42
E	Competition	Procurement/tariffs	Consider further regulatory action to promote a more developed secondary (hedging) market in electricity.		43
Legal	Competition	Concurrency Working Party	Develop relationships with OFT, Ofgem, Ofwat on competition matters on quarterly basis.		44
CA	Competition	Protection of customers	To review and consult on whether there is the need for any further measures to protect customers from potential improper behaviour from suppliers.		45

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Lead	Strategic theme	Projects	Actions to develop in 2009-10	Actions to develop in 2010-11 & 2011-12	Ref
Joint (E / Legal)	Harmonisation	SEM	1. Monitoring bidding activity to effectively tackle any danger of dominance/market abuse (each year). 2. Work up Complaints procedures for Competition/bidding/market complaints in the SEM.	Monitoring bidding activity to effectively tackle any danger of dominance/market abuse (each year).	46
G	Harmonisation	Progressing CAG workstreams	Implementation of Project Plan, consider legislative requirements, begin drafting of new codes, licences, contracts where necessary, monitor impact of NTS Exit Reform.	Implementation of Project Plan including operations and tariffs.	47
E	Harmonisation	Security of supply	Commence in conjunction with DETI, DCENR and CER the production of long-term arrangements for security of supply on an all-island basis.	Complete and implement.	48
E	Harmonisation	Wind in the SEM	Development and implementation of policy on dispatch and payments,	Further review of policy on wind with respect to the CPM, market prices and ancillary services.	49
E	Harmonisation	Capacity payment mechanism	Review capacity pot calculation.		50
E	Harmonisation	Access charging and treatment of losses	Develop and implement with CER: arrangements for harmonisation of Generator Transmission Use of System (GTUOS) and loss adjustment factors.		51
E	Harmonisation	T&SC Compliance and Development	Explore with CER: feasibility of alignment of Trading Settlement Code and tariff years.		52
Joint (E / CA)	Harmonisation / Sustainability	Demand Response	Review our policies on Demand Response and work with CER to develop a coherent set of arrangements covering Smart Grids, Demand Response, Smart Metering, Aggregation of Generation and Demand Reduction, and Energy Efficiency.		53
E	Harmonisation / Sustainability	Grid developments	Work closely with network owner and DETI to ensure the planning and delivery of a Grid Development Strategy for NI and the implementation of the necessary network investments.		54

Lead	Strategic theme	Projects	Actions to develop in 2009-10	Actions to develop in 2010-11 & 2011-12	Ref
Joint (G / E / Legal)	Regulatory Framework	Application of competition Law	Revised Guidance on application of Competition law powers (market investigations/competition investigations etc) to NI Electricity Industry.	Revised Guidance of application of Competition law powers (market investigations/competition investigations etc) to NI Gas Industry.	55
Joint (G / E / Legal)	Regulatory Framework	EU issues	Review finalised third package and consider implementation issues.	Prepare for directive implementation.	56
Joint (G / E / Legal)	Regulatory Framework	EU issues	Monitor and Enforce Regulation 1228/2003.	Monitor and enforce regulation 1775/2003.	57
Joint (G / E)	Regulatory Framework	EU issues	Participate in Regional Initiatives and Directive consultations.		58
Joint (G / Legal)	Regulatory Framework	Gas licences review		Initiate review of standard licence conditions.	59
G	Regulatory Framework	Supplier last resort	Develop Implementation Plan.		60
W	Regulatory Framework	Act on Outcome from Executive Consultation	1. Work with statutory stakeholders to interpret and implement necessary changes. 2. Develop programme to amend licence and action as necessary.	Continue to action as necessary.	61
W	Regulatory Framework	Communication & Education	1. Develop Cost of Water Report. 2. Consider approach to promote water efficiency. 3. Regular briefing with DRD Minister and DRD Committee.	1. Consider and Develop Communication Plan with wider stakeholders and consumers. 2. Consider approach to promote water efficiency.	62
Legal	Regulatory Framework	Legislative Forum	Establish solid footing for horizon scanning legislative developments with DETI.	Scope potential for co-ordinated horizon scanning with DRD for water matters.	63
Joint (E / Legal)	Regulatory Framework / Sustainability	Private networks connections for renewables	Examine the electricity grid connection policy in relation to embedded generators connecting to the electricity grid and consult on the way forward.	If appropriate, create regulatory framework for private electricity networks (including tie-lines to wind farms).	64

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Lead	Strategic theme	Projects	Actions to develop in 2009-10	Actions to develop in 2010-11 & 2011-12	Ref
CA	Organisational	Good governance	Deliver internal audit plan, progress in Equality Action Plan and consider Board effectiveness.		65
CA	Organisational	HR processes	Embed HR strategy including competence, performance and pay and reward frameworks, and implement key HR policies.		66
CA	Organisational	Regular publications	1. Lay Annual Resource Accounts in NI Assembly before July recess. (Each year) 2. Publication of Annual Report by September. (Each year in SEP). 3. Annual FWP. (Each year)	Formally review of Corporate Strategy to ensure it remains appropriate. (2011-12)	67
CA	Organisational	Stakeholder Communications	Produce and deliver Communications Plan for 2009-10 covering: 1. Crisis Communications Plan. 2. Stakeholders engagement. 3. Further enhancement of online communications.	1. Produce Plan for 09-10. (2010-11)	68
CA	Organisational / Sustainability	Procurement	Finalise NIAUR's approach to procurement, taking into consideration the new guidelines issued by the Equality Commission on equality of opportunity and sustainable development in public procurement in NI.		69

2.3 Ensuring Delivery – Resources and Risks

2.3.1. Once we have consulted on and developed our final FWP, we will ensure its deliverability by focusing on:

- **Resources:** It is important that the Utility Regulator delivers “value for money” to customers. Our running costs are largely met by licence fees which in turn are paid for by the utility customers. It is essential therefore that we protect customers and perform our duties as economically and effectively as possible. We will deliver through adhering to all Government audit and accountability frameworks, by having skilled staff operating in a team-based and knowledge driven environment, working in well-planned and quality-driven project teams.
- **Delivery through partnership** (e.g. other regulators alliances, local and national government Departments, other statutory bodies, companies, consumer groups): The regulatory environment in which we operate can be a complex one. This means that we can maximize our contribution only through good working partnerships with our stakeholders. We will deliver by working transparently and constructively with the relevant EU, National and Local Authorities, as well as the licensees and other consumer and interest groups.
- **Delivery through consultation:** We recognize the importance of consulting widely on our projects, plans and decisions. Some of our stakeholders may not always agree with what we do but at least they should know clearly why we propose certain courses of action at an early a stage as possible. We will deliver our actions using the best available evidence and taking into account evidence from all our stakeholders. We will deliver by being an effective and proportionate regulator, intervening to protect consumers and their interests where the market is not effective, and where the benefits justify action.
- **Delivery overseen by our Board:** We have a Board and an executive team that we are confident can deliver on our duties and maximize our contribution. The Utility Regulator’s board currently consists of a chairman – Prof. Peter Matthews – and six other members that have significant experience in regulation, energy, water and corporate governance.

Resources

2.3.2. The Utility Regulator places a high priority on ensuring that its resources are demonstrably managed in an efficient manner. A budget has been prepared for approval by the Authority for the delivery of the commitments and actions in this Forward Work Programme during 2009/10 as set out below.

2.3.3. The FWP is based on a complement of 73 staff (assuming we have achieved our planned resource profile) across four directorates and the Chief Executive's Office. In addition to the various central corporate services functions, the Corporate Affairs Directorate includes operational teams which are responsible for social, environmental, strategy and complaints functions.

2.3.4. We are a small organization. Our staff are and will continue to be our key resource. We are developing an HR framework and associated policies that will reflect that. We are also developing appropriate monitoring arrangements and will work to ensure that we outperform the wider NICS average in terms of key HR measures such as absence management

2.3.5. The draft budget for 2009/10 presented in the table below is subject to approval by the Authority.

Category of Expenditure (£000s)	Electricity	Gas	Water	Strategy/ Social and Env.	Other Corp. Costs	CEO/ Legal	Total
Salaries (excluding delegation)	1,164.0	833.0	1,129.0	434.0	670.0	462.0	4,692.0
Programme	1,186.0	622.0	549.5	155.0	229.0	40.5	2,782.0
Other Costs	60.0	28.5	25.0	180.0	732.0	26.0	1,051.5
Total Budget	2,410.0	1,483.5	1,703.5	769.0	1,631.0	528.5	8,525.5
08/09 Budget	2,476.1	1,596.5	1,915.4	780.5	1,603.1	536.9	8,908.5

2.3.6. With the exception of the costs associated with some environmental responsibilities, all of the Utility Regulator's funding is received through licence fees. All corporate and shared costs (such as finance, HR, accommodation and IT) are included in the Other Corporate Costs and are, along with the Chief Executive's Office and Legal costs, recharged across the utilities for the purpose of calculating the fees payable by each utility licensee. Elements of Strategy, Social and Environmental Costs will also be recharged to the relevant industry directorates.

2.3.7. The process of preparing this draft budget has been closely aligned with the development of the objectives set out in this forward work programme. Initial

estimates have been included for the Programme costs associated with delivering draft FWP objectives and these will be refined further in advance of publishing the final FWP.

Dealing with Risks

2.3.8. The Utility Regulator is committed to ensuring that appropriate risk management processes are in place, and subject to regular review, in order to minimise risks to its business and its stakeholders.

2.3.9. A revised Risk Management Strategy was approved by the Utility Regulator's Audit Committee in September 2008 and a programme of awareness training has been undertaken to give all staff a basic understanding of the nature and management of risk and the relationship to business planning. This is seen as vital in equipping our decision-makers to better evaluate the impact of particular decisions or actions on the achievement of objectives.

2.3.10. The Risk Management Strategy does not focus upon risk avoidance but rather on the identification and management of an acceptable level of risk. To this end, directorates have prepared risk registers which address the objectives set out in the draft Forward Work Programme. A corporate risk register addresses significant risks that could impact on the achievement of the organisation and corporate objectives. This process identifies the key risks arising both from the programme of work set out in this document and the wider regulatory environment in which Utility Regulator discharges its duties.

2.3.11. In addition to setting out the risks that have been identified, the registers also detail the actions and controls taken to mitigate the risks identified and an assessment of the likelihood and impact of their occurrence. The risks identified on the registers, the controls in place and the assessment of likelihood and impact are all subject to formal review at regular points during the year at Chief Executive and Director levels. Risk is a standing item on the agenda of the Audit Committee and reported on to the Board at each of its meetings.

Consultation details

Details on how you might engage in the consultation process are set out here.

The Utility Regulator asks for responses in writing to this Consultation paper by 12.00 noon on 9th January 2009.

We intend to consider any consultation responses whenever they arrive and immediately following the closing date for responses. In addition, our Board intend to devote some time to final thinking and decisions after the closure of the consultation. For these reasons, we apologise but will be unable to allow an extended deadline for receipt of responses to this consultation.

Comments are welcome on any aspects of the paper – on this occasion we have chosen not to ask specific questions throughout.

Please note that we may choose to refer to comments received in response to this consultation in future publications. Also, your response may be made public by the Utility Regulator. If you do not want all or part of your response or name made public, please state this clearly in the response by marking your response as '**CONFIDENTIAL**'. Any confidentiality disclaimer that may be generated by your organisation's IT system will be taken to apply only to information in your response for which confidentiality has been specifically requested.

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA) and the Data Protection Act 1998 (DPA)). If you want other information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.

In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Utility Regulator.

During the consultation period we intend to hold a workshop/discussion session for our stakeholders in order to allow discussion of the contents of this paper. Iain Osborne will chair this discussion and we intend to hold this session at **2:00 – 16:30 on Wednesday 10th December at NIAUR offices**. As space on the day may be constrained, could we ask that anyone wishing to attend contacts us (by

letter, phone or e-mail using the contact details below) to let us know please **before noon on Friday 5th December.**

To comply with statutory requirements our final Forward Work Programme will be published before the end of March 2009.

Enquiries about consultation arrangements and responses to this document can be made to Elena Ardines at:

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ANNEX 1

Detailed FWP Table split by Directorate

Utility Regulator Corporate Strategy and FWP Consultation: 14th November 2008

Lead	Strategic theme	Projects	Actions to develop in 2009-10	Actions to develop in 2010-11 & 2011-12	Ref
Joint (All)	Monopoly Regulation	GSS	1. Water: Review introduction and timing of GSS following output from the Executive consultation. 2. Gas: Engage with DETI on legislation requirements for GSS. 3. Update GSS for electricity. 4. Complete survey research. Draft guaranteed and overall standards scheme in consultation with key stakeholders.		1
Joint (All)	Monopoly Regulation	Price control	Price Control for mutualised entities.	To consider the performance of the mutualised companies.	2
Joint (All)	Monopoly Regulation / Sustainability	Price control	Cross Directorate Group work on price control principles including as necessary sustainability issues.	To review customer protection in light of different financing models.	13
Joint (All)	Sustainability	Keeping our own house in order	1. Set up staff group to gain staff buy in for improving our energy efficiency and reducing our impact on the environment.		18
Joint (CA / Legal)	Sustainability	Renewables	Consider implications of the draft of Renewables Directive 2009.		21
Joint (E / CA)	Sustainability	Fuel Mix Disclosure	Establish effective system for Fuel Mix Disclosure.	We will review the format of environmental information on bills and if necessary seek to make improvements.	16
Joint (E / CA)	Harmonisation / Sustainability	Demand Response	Review our policies on Demand Response and work with CER to develop a coherent set of arrangements covering Smart Grids, Demand Response, Smart Metering, Aggregation of Generation and Demand Reduction, and Energy Efficiency.		53
Joint (E / Legal)	Competition	Kilroot contract	Following JR consider approach to consideration of contract cancellation options. Consider consultation on any decisions on future PPA contract.	Decision on PPA contract.	37
Joint (E / Legal)	Harmonisation	SEM	1. Monitoring bidding activity to effectively tackle any danger of dominance/market abuse (each year). 2. Work up Complaints procedures for Competition/bidding/market complaints in the SEM.	Monitoring bidding activity to effectively tackle any danger of dominance/market abuse (each year).	46
Joint (E / Legal)	Regulatory Framework / Sustainability	Private networks connections for renewables	Examine the electricity grid connection policy in relation to embedded generators connecting to the electricity grid and consult on the way forward.	If appropriate, create regulatory framework for private electricity networks (including tie-lines to wind farms).	64
Joint (G / E / Legal)	Regulatory Framework	Application of competition Law	Revised Guidance on application of Competition law powers (market investigations/competition investigations etc) to NI Electricity Industry.	Revised Guidance of application of Competition law powers (market investigations/competition investigations etc) to NI Gas Industry.	55
Joint (G / E / Legal)	Regulatory Framework	EU issues	Review finalised third package and consider implementation issues.	Prepare for directive implementation.	56
Joint (G / E / Legal)	Regulatory Framework	EU issues	Monitor and Enforce Regulation 1228/2003.	Monitor and enforce regulation 1775/2003.	57
Joint (G / E)	Monopoly Regulation	Purchasing strategies	Review the economic purchasing obligations of regulated companies.		3
Joint (G / E)	Monopoly Regulation / Sustainability	Connection Policy Review	1. Review Phoenix Distribution and firmus Distribution connection policies, taking into consideration any sustainability issues. 2. Review electricity connection policies, taking into consideration any sustainability issues.	Create competitive framework for electricity connections.	12
Joint (G / E)	Sustainability	Smart Metering	Complete cost-benefit analysis to determine smart metering implementation policy. Consider the best way to factor in the benefits of smart metering in the provision of tariff and usage information to customers and also back to suppliers and network operators.		19
Joint (G / E)	Sustainability	Publishing more evidence	Consult on energy annual report.		20
Joint (G / E)	Competition	Branding separation	Begin policy development on branding separation in electricity and gas.	Finalise plans for full branding separation in the electricity and gas sectors. Market report to place particular focus on effectiveness of branding separation.	35
Joint (G / E)	Competition	Data availability	1. GMOG and SIG to finalise list of data availability issues and action plan to address (this having already been extensively discussed). 2. Consultation on any necessary licence changes.		36
Joint (G / E)	Competition	Long-term customer contracts and incumbent response		Review role of long-term customer contracts in retail markets.	38
Joint (G / E)	Competition	Metering		Review contestability of meter reading market.	39
Joint (G / E)	Competition	Overall programme	1. Consider the impacts of our retail competition action plan on consumers and industry. 2. First annual Retail Market Report.	2. Second annual Retail Market Report.	40
Joint (G / E)	Competition	Procurement/tariffs	1. Complete review of K factors and tariff structure (gas and elec). 2. Consult on alternative approaches to regulation of supply tariffs. 3. Decision document on revised approach to supply tariff regulation. 4. Implement necessary licence changes.	3. Implement new supply tariffs.	41
Joint (G / E)	Competition	Switching systems	1. Work with GMOG to develop a system specification and review options to deliver it. Delivery on timetable as appropriate. 2. Plan implementation of enduring solution in electricity.	Systems implementation: implementation of gas and electricity switching process (the second one may last > 1 year).	42
Joint (G / E)	Regulatory Framework	EU issues	Participate in Regional Initiatives and Directive consultations.		58

Utility Regulator Corporate Strategy and FWP Consultation: 14th November 2008

Lead	Strategic theme	Projects	Actions to develop in 2009-10	Actions to develop in 2010-11 & 2011-12	Ref
Joint (G / Legal)	Sustainability	Gas Storage	Work with DETI on creation of storage licence conditions.		17
Joint (G / Legal)	Regulatory Framework	Gas licences review		Initiate review of standard licence conditions.	59
Joint (G/ E / CA)	Sustainability	Contributing to wider government policy	1. Work with DETI and regulated companies in respect of interpretation and implementation of the DETI Strategic Energy Framework (SEF). 2. Work with DETI to help develop policies in relation to the renewable heat in Northern Ireland.		15
Joint (W / Legal)	Sustainability	Urban waste water treatment	Bi-annual or quarterly Monitoring of Urban Waste Water Treatment Regulations and Enforcement		22
G	Monopoly Regulation	Price Control	Finalise work on creating a better process for monitoring network development and costs between price controls.	Consider future of Phoenix supply price control.	4
G	Sustainability	Gas development	Engage with Government and stakeholders to examine the feasibility and options to accelerate the roll-out of gas, both in existing and new areas. Consider further extension of the gas transmission network that could bring gas to new parts of Northern Ireland.		23
G	Harmonisation	Progressing CAG workstreams	Implementation of Project Plan, consider legislative requirements, begin drafting of new codes, licences, contracts where necessary, monitor impact of NTS Exit Reform.	Implementation of Project Plan including operations and tariffs.	47
G	Regulatory Framework	Supplier last resort	Develop Implementation Plan.		60
E	Monopoly Regulation	Price Control	SONI Price Control for period commencing 1 April 2010.		5
E	Monopoly Regulation	Price Control		T&D Price Control for period commencing 1 April 2012.	6
E	Monopoly Regulation	Price Control	SEMO Price Control for period commencing 1 October 2009.		7
E	Protection / Sustainability	Social tariffs	Complete initial work on social tariffs. Subject to ministerial buy in/feedback from stakeholders on the consultation, operationalise new social tariff design.		30
E	Competition	Procurement/tariffs	Consider further regulatory action to promote a more developed secondary (hedging) market in electricity.		43
E	Harmonisation	Security of supply	Commence in conjunction with DETI, DCENR and CER the production of long-term arrangements for security of supply on an all-island basis.	Complete and implement.	48
E	Harmonisation	Wind in the SEM	Development and implementation of policy on dispatch and payments,	Further review of policy on wind with respect to the CPM, market prices and ancillary services.	49
E	Harmonisation	Capacity payment mechanism	Review capacity pot calculation.		50
E	Harmonisation	Access charging and treatment of losses	Develop and implement with CER: arrangements for harmonisation of Generator Transmission Use of System (GTUOS) and loss adjustment factors.		51
E	Harmonisation	T&SC Compliance and Development	Explore with CER: feasibility of alignment of Trading Settlement Code and tariff years.		52
E	Harmonisation / Sustainability	Grid developments	Work closely with network owner and DETI to ensure the planning and delivery of a Grid Development Strategy for NI and the implementation of the necessary network investments.		54

Utility Regulator Corporate Strategy and FWP Consultation: 14th November 2008

Lead	Strategic theme	Projects	Actions to develop in 2009-10	Actions to develop in 2010-11 & 2011-12	Ref
W	Monopoly Regulation	Price Control Customer Views	1. Work with statutory stakeholders and in particular CCNI to ensure and confirm that NI Water's PC10 Business Plan reflects the views of its customers. 2. Publish and consult on draft determination.	1. Reflect on approaches for obtaining and incorporating customer views in Price Control process. 2. Work with statutory bodies, particularly NI Water and CCNI.	8
W	Monopoly Regulation	Price Control UR and NI Water Information Exchanges	Price Control – PC10 – the process and Programme for PC10 was developed in 2008/09 and spans from March '08 to December 2009. 1. Review and Analyse NI Water's PC10 Business Plan Submission to be delivered on 1 June. 2. Publish and Consult on Draft Determination August 2009. 3. Publish Final Determination December 2009. 4. Develop and Agree Monitoring Plan for PC10 by March 2010.	1. Review PC10 process and data requirements. 2. Engage with statutory stakeholders on the approach to the next price control – PC12/13. 3. Develop and consult on overall approach to PC12/13 Price Control. 4. Define Programme for PC12/13.	9
W	Monopoly Regulation	Price Control Value for Money	1. Benchmark performance both in terms of standards of service and in terms of efficiency. 2. Set challenging efficiency targets for both Operational and capital spend. 3. Establish principles of regulation to incentivize NI Water to out perform and deliver for the customer.	1. Review data requirements and methodologies. 2. Review data trends. 3. Define methodologies and information requirements for PC12/13.	10
W	Monopoly Regulation	Water regulation	1. Render NIW licence fit for purpose: amend Condition B: Charges. 2. Review licence for Water Resale Order.	Ongoing monitoring of licence fit with political and regulatory realities.	11
W	Monopoly Regulation / Sustainability	Price Control Ministerial Guidance	1. Work with statutory stakeholders and particularly DRD Policy Unit to inform the development of ministerial social and environmental guidance. 2. Upon receipt of social and environmental ministerial guidance, issue to company and ensure that NI Water's PC10 Business Plan reflects the ministerial guidance issued.	Work with statutory stakeholders and particularly DRD Policy Unit to inform the programming and development of ministerial guidance for PC12/13.	14
W	Sustainability	Price Controls	PC10 – Consideration of the following aspects as reflected in NI Water's PC10 Business Plan and as already discussed with Statutory	In addition to the measures being discussed for PC10 we will in	24
W	Sustainability	Water Resource Management	1. Review of NI Water's water resource management strategy contained with PC10 Business Plan Submission. 2. Review of leakage methodologies and targets for achieving an economic level of leakage.	1. Liaise with DRD Policy Unit to define the programme for NI Water to formally submit a water resource management Plan. 2. Continue to monitor performance and review leakage targets.	25
W	Sustainability	Review Performance	Consider and develop monitoring and benchmarking processes for performance against sustainability indicators.	Consider and develop monitoring and benchmarking processes for performance against sustainability indicators.	26
W	Protection	Enforcement	As appropriate if company data is inadequate or it's performance is poor.	As appropriate if company data is inadequate or it's performance is poor.	27
W	Protection	Review of Regulatory Accounts	1. Review of NI Water Regulatory Accounts after submission on 15 th July 2009. 2. Monitor and analyse accounting policies.	1. Review of NI Water Regulatory Accounts after submission on 15 th July. 2. Monitor and analyse accounting policies.	28
W	Protection	Annually Review and Approve NIW Scheme of Charges	1. Consider approval of NIW Scheme of Charges - Process Oct '09 to Feb '10. 2. Publish Report on NI Water Scheme of Charges.	1. Consider approval of NIW Scheme of Charges – Process Oct '09 to Feb '10. 2. Publish Report on NI Water Scheme of Charges.	29
W	Protection / Sustainability	Annual Reporting	1. Issue and publish Annual Reporting Information Return Guidance to NIW – 31 March 2009. 2. Analyse NI Water Annual Information Return (AIR09) to be submitted on. 3. Publish Annual Cost and Performance Report January 2010. 4. Review annual land disposal return.	1. Issue Annual Reporting Information Return Guidance to NIW. 2. NIW Submit Annual Information Return. (AIR10) 3. Publish Annual Cost and Performance Report. 4. Review annual land disposal return.	31
W	Protection / Sustainability	Monitoring Performance	1. Quarterly Capital Investment Monitoring. 2. Monitor and report on NIW emergency planning and incident reporting.	1. Review Procurement Plan. 2. Monitor and report on NIW emergency planning and incident reporting.	32
W	Regulatory Framework	Act on Outcome from Executive Consultation	1. Work with statutory stakeholders to interpret and implement necessary changes. 2. Develop programme to amend licence and action as necessary.	Continue to action as necessary.	61
W	Regulatory Framework	Communication & Education	1. Develop Cost of Water Report. 2. Consider approach to promote water efficiency. 3. Regular briefing with DRD Minister and DRD Committee.	1. Consider and Develop Communication Plan with wider stakeholders and consumers. 2. Consider approach to promote water efficiency.	62

Utility Regulator Corporate Strategy and FWP Consultation: 14th November 2008

Lead	Strategic theme	Projects	Actions to develop in 2009-10	Actions to develop in 2010-11 & 2011-12	Ref
CA	Protection / Sustainability	Encouraging energy efficiency	Implement decisions from the review of Energy Efficiency Levy (EEL).		33
CA	Protection / Sustainability	Social action and fuel poverty	Finalise and implement Social action plan, continue to contribute to wider policy development in relation to fuel poverty through involvement in fuel poverty advisory group and interdepartmental group on fuel poverty.		34
CA	Competition	Protection of customers	To review and consult on whether there is the need for any further measures to protect customers from potential improper behaviour from suppliers.		45
CA	Organisational	Good governance	Deliver internal audit plan, progress in Equality Action Plan and consider Board effectiveness.		65
CA	Organisational	HR processes	Embed HR strategy including competence, performance and pay and reward frameworks, and implement key HR policies.		66
CA	Organisational	Regular publications	1. Lay Annual Resource Accounts in NI Assembly before July recess. (Each year) 2. Publication of Annual Report by September. (Each year in SEP). 3. Annual FWP. (Each year)	Formally review of Corporate Strategy to ensure it remains appropriate. (2011-12)	67
CA	Organisational	Stakeholder Communications	Produce and deliver Communications Plan for 2009-10 covering: 1. Crisis Communications Plan. 2. Stakeholders engagement. 3. Further enhancement of online communications.	1. Produce Plan for 09-10. (2010-11)	68
CA	Organisational / Sustainability	Procurement	Finalise NIAUR's approach to procurement, taking into consideration the new guidelines issued by the Equality Commission on equality of opportunity and sustainable development in public procurement in NI.		69
Legal	Competition	Concurrency Working Party	Develop relationships with OFT, Ofgem, Ofwat on competition matters on quarterly basis.		44
Legal	Regulatory Framework	Legislative Forum	Establish solid footing for horizon scanning legislative developments with DETI.	Scope potential for co-ordinated horizon scanning with DRD for water matters.	63

Decision Paper 1: Energy Retail Competition - Consultation & Way Forward

In April 2008 the NIAUR published a consultation document entitled a “Consultation on Electricity and Gas retail market competition in Northern Ireland.” That consultation process ended in mid-July and twelve responses were received.

Our consultation aimed to consider how the competitive benefits deriving from liberalisation and the establishment of the SEM can be delivered more quickly to Northern Ireland energy consumers.

This decision paper contains four sections:

- 1) Context
- 2) Strategic intent and action plan
- 3) Summary of the consultation paper
- 4) Summary of issues raised in responses to consultation.

1) Context

A number of key developments led the Utility Regulator to launch this consultation.

During 2007 the Northern Ireland electricity and Greater Belfast gas markets were liberalised, with no legal barriers to any gas and electricity supplier addressing any customer. This legal liberalization was to implement the EU requirement that all consumers should have a choice of end-supplier.

At the same time, a new all-island electricity wholesale market (the SEM) was established, creating much improved arrangements for the trading of electricity and providing a stronger basis for attracting new entrants into the electricity retail market and for the further development of retail competition.

Moreover, substantial investments have been made in automated systems (to a value of around £100 per consumer) to enable electricity consumers to switch suppliers smoothly.

It is furthermore clear that there is strong consumer and stakeholder support for further development of competition, although individual actions to this end will need to be considered and consulted upon on their own merits.

A key objective of the consultation was to accelerate the delivery to consumers of the benefits of the SEM, of legal liberalization, and of this substantial systems investment.

This matter has some urgency since there appears to be little evidence that retail competition is at present becoming established outside the market for supply to industrial electricity customers. In particular, there are no active competitors to the incumbent suppliers – NIE Energy Supply and Phoenix Supply – in the domestic energy markets.

There have been two wider developments since the launch of the consultation that are relevant to the conclusions we draw in this decision paper:

- A surge in wholesale fuel prices has led to sharply higher consumer tariffs, which in turn have generated substantial public debate. The appetite among consumers at large and key stakeholders for competition is clear, as is the interest in seeing suppliers bear more of the risk inherent in wholesale procurement;
- Ofgem has published its assessment of the GB energy retail market. It is apparent from this report that competition is delivering substantial benefits to many GB consumers, but also that the GB model is not delivering benefits for all. The consultation paper highlighted that it was not our intention simply to adopt a model from GB or anywhere else, and this publication has strengthened our view on this point.

2) **Strategic Intent and Action plan**

Our strategic intent

Retail competition will deliver benefits for consumers, so long as it is developed efficiently and according to a model that suits the conditions in Northern Ireland. These benefits might include:

- Price benefits – from creating competitive pressure to reduce costs in supply, and to procure better. In particular, placing commercial incentives on suppliers to procure better should bring to bear more management expertise and so over time allow lower overall costs than the current pass-through arrangements;
- Innovation – new suppliers, with experience in other markets, are likely to bring to market different products that extend consumer choice;
- Service standards – Competitive pressures, combined with effective industry systems and robust regulation, should enable high service standards to be delivered cost effectively. Regulation can only effectively

set a single standard which might be the average of consumers' wishes; competition can allow different supplier and product offerings to differentiate service levels, with prices varying accordingly.

A number of significant barriers currently hinder market entry and competition. These can be addressed by regulation – we have seen no evidence that fundamental factors such as market scale make retail competition impossible across NI and the island of Ireland.

We will deploy resources over the coming years to reduce the barriers. We will not unthinkingly import a model from any other jurisdiction. We will ensure the concrete steps we take are best calculated to deliver our high-level goal, taking account conditions here, and we will carry out and consult upon assessment of regulatory interventions to ensure we are tailoring our approach accordingly and developing the most cost-effective approach.

We will seek to work with CER to develop a market framework that enables suppliers to operate across the whole island of Ireland, since this will share fixed costs more widely, to the benefits of consumers. We need to work with CER to better plan common workstreams, management arrangements for the work and practical and deliverable timelines for any identified action plans. We will do this in the coming few months and in light of this current consultation with a view to having an agreed set of workstreams and management plans for consultation in spring 2009.

Our high level goal is to develop a market framework that enables efficient new entrants to the NI markets to serve business, SME and household electricity and gas consumers. This will enable efficient entrants to build businesses of adequate scale that make reasonable profits and so fund continuing investment.

We will develop the regulatory framework in a way that maximizes consumer benefit from competition. Market opening is a process, not an event. We will not deregulate prematurely in a way that enables excess incumbent profits. We will cease to regulate tariffs only when effective competition makes it unnecessary. We would expect to remove tariff regulation more quickly in industrial markets, where entry is easier since fixed costs are lower as proportion of the bill. For so long as we continue to set regulated tariffs, we will do this in a way that does not create unfair incumbent advantages.

We will consider options to change how we regulate wholesale procurement by incumbents, so as to place them on an equal basis with commercial entrants, which means requiring them to bear the risks of their own procurement decisions. This will have consequences for other aspects of regulation, for instance: retail margins, carry-over between years and the tariff timetable.

We will ensure that the benefits of market opening are distributed fairly. Competition cannot be allowed chiefly to benefit richer households. We will

ensure that the market framework creates opportunities to address all consumers, and in particular that the costs to serve pre-payment consumers are not higher.

We will as much as possible align market opening in gas and electricity so as to enable fixed costs to be shared between gas and electricity, to the benefit of consumers. However, we will prevent artificial barriers being created that might limit competition to gas-connected customers.

We will monitor the development of competition. Our key metric of success will not be switching – since a competitive market should benefit those who do not switch as well as those who do - but we will review a basket of measures. This might include: the presence of credible alternative offers, the proportion of consumers who have considered switching, price offers, product innovation or other measures.

We will ensure that automated switching systems are developed so as to ensure a smooth and error-free consumer experience. We will ensure this development is as efficient as possible. We will give a high priority to data integrity in this development, so as to minimize consumer problems at the point of switch.

We will encourage suppliers to market actively to consumers, but also require the industry to take on board lessons from other jurisdictions about effective management of direct sales. We will not tolerate widespread mis-selling. Our regulation of energy retail will take into account general law to protect customers' interests in terms of direct sales and marketing, and will seek to avoid overlap and duplication.

Action plan

We set out below an initial potential outline action plan for consultation. As noted above, in parallel to this consultation, we will be taking forward discussions with CER to better understand workstreams that may be taken forward jointly, and the necessary timelines and management arrangements for these. Final decisions on this will not be taken until after consultation responses have been assessed. The rationale for each element of the plan is briefly outlined, and this can be compared to the responses to consultation that are summarized later in this decision paper.

This draft is a first view of how we might deploy our resources so as to deliver our strategic intent. It will be refined over the coming months, in the light of responses to this consultation, and also further work by the SEM Committee and the CAG Steering Group, and in the light of DETI's forthcoming consultation on the Northern Ireland Strategic Energy Framework. We very much welcome views from respondents on the outline workstreams and timetables.

Retail Competition Draft Possible Action Plan	
Overall programme	
<p>As set out above, the extent and distribution of benefits from retail competition will depend substantially on the approach taken to implement. We therefore intend to consult early in this programme on the full programme, so as to highlight key risks needing particular management attention. We also intend to monitor carefully and transparently the development of retail competition through annual reports.</p>	
Year	Action
2009/10	<p>Consider the impacts of our retail competition action plan on consumers and industry.</p> <p>First annual Retail Market Report.</p>
2010/11	Second annual Retail Market Report.
Procurement/tariffs	
<p>It is clear from consultation that many regard current tariff structures as unfair. Incumbents are shielded from procurement risk (by pass-through) and from estimation risks (by the K factor), which hampers entry. Consumers bear these risks. Shifting these risks to the party best placed to manage it, i.e. the regulated supplier, will incentivise more effective risk-management which should reduce overall prices, over time. We consider that pass-through and the K factor are closely linked issues that are best addressed together.</p> <p>It is clear from GB experience and the recent Ofgem report that wholesale and retail are closely linked. An insufficiently competitive retail sector can hamper development of a liquid wholesale market, and in particular the market for secondary trading instruments (“hedges”). An illiquid hedging market can increase the risks of market entry. We therefore need to take forward development of the CfD market together with retail development.</p> <p>The process of tariff setting might in itself create risk for entrants and/or distort market development. Examples mentioned in consultation include PSO volatility and a perceived lack of transparency in the cost build-up. Setting an annual tariff might in itself hamper development of a hedging market that offers products over multiple time horizons.</p>	
2009/10	<p>Review of K factors and tariff structure (gas and elec).</p> <p>Consider options to promote a more developed secondary (hedging) market in electricity.</p> <p>Consult on alternative approaches to regulation of supply tariffs.</p> <p>Decision document on revised approach to supply tariff regulation.</p>

2010/11	Implement necessary licence changes. Implement new supply tariffs.
<p>Data availability</p> <p>Several respondents to the consultation highlighted a lack of data transparency that increases supplier risk and/or may create a bad switching experience for consumers. Any developments must naturally be consistent with data protection legislation.</p> <p>2009/10 GMOG and SIG to finalise list of data availability issues and action plan to address (this having already been extensively discussed). Consultation on any necessary licence changes.</p>	
<p>Branding separation</p> <p>Some respondents highlighted the need for the Utility Regulator to complete its policy development in this area. Conditions effecting branding separation exist in some incumbent licences, but have not been triggered, and in gas licences there are no such provisions</p> <p>2009/10 Begin policy development on branding separation in electricity and gas.</p> <p>2010/11 Finalise plans for full branding separation in the electricity and gas sectors. Market report to place particular focus on effectiveness of branding separation.</p>	
<p>Switching systems</p> <p>In gas, no automated switching system (i.e., messaging protocols, EDI, database structure protocols, etc.) exists in NI, and there is a clear need to create one. Broadly, we could develop a system in NI; adopt the GB system; or adopt the Rol system.</p> <p>In electricity a system exists but because of the requirements of business separation, and the need to renew outmoded systems that house some data, further development is required.</p> <p>2009/10 Work with GMOG to develop a system specification and review options to deliver it. Delivery on timetable as appropriate. Plan implementation of enduring solution in electricity.</p> <p>2010/11 Systems implementation (may last >1 year).</p>	
<p>Long-term contracts and incumbent response</p> <p>Some responses to the consultation raised questions relating to potential barriers to customer switching. One such possible barrier is the ability of the incumbent either to re-tender to switched customers, or to lock such customers into long-term contracts. The consultation paper also included “scenarios” that envisaged</p>	

a potential role for longer-term contracts as part of “energy services”.

On consideration, we see significant risks that preventing re-tendering – which is to say, restricting consumers in their choice of supplier, in that having left the incumbent’s tariff they would be unable to return – would be a disproportionate measure. It could also back-fire in that consumers may be unwilling to switch if they know they have no path of return.

However, the wider question remains of whether restrictions should be placed on the ability of suppliers (incumbents or entrants) to lock consumers into long-term contracts. We consider this merits further investigation, although it is not a first priority.

2010/11 Review role of long-term contracts in retail markets.

Meter reading

Some respondents to the consultation argued that meter reading should be a regulated monopoly service, since new entrants do not have the scale to provide this service as efficiently as the incumbent. We see some merit to this argument, although would need a strong evidence base to extend regulation into what appears to have many of the characteristics of a contestable market. We consider this merits further investigation, although it is not a first priority.

2010/11 Review contestability of meter reading market.

3) What the consultation said

The consultation was divided into several chapters. In each chapter we specifically asked a number of questions. The following summarises what we said in each chapter and re-states the question(s) asked in relation to this. Note that all non-confidential responses can be viewed on our website:

The consultation set out the relevant background and reviewed the current status of competition in the electricity and gas retail markets in Northern Ireland. In summary, preliminary conclusions were:

- although we are at very early stages of domestic market opening, there are no active competitors to the incumbent gas and electricity suppliers for these customers and, while some players have indicated a desire to enter the domestic retail markets in the longer-term, there is no clear evidence of significant activity in the immediate future;

- although market structures and regulatory regimes have undergone significant changes in the recent past which all provide an improved platform for the development of retail competition - such as full energy market opening and the establishment of the SEM in electricity - effective and embedded retail competition is yet to be realised in most market sectors; and
- several groups of industrial and commercial customers are unable to obtain alternative offers from suppliers at present.

However, there are some encouraging signs:

- there are several active players in the industrial electricity market;
- while few customers have switched in gas, a number of gas supply companies are active in the industrial gas market, albeit in a very small way;
- the recent takeover of Airtricity by Scottish and Southern Energy (SSE), introduces a new player with a vast experience of operating in competitive domestic energy markets.

We then examined where we feel potential barriers to further retail competition may lie. Our preliminary conclusions were that there are a number of contributory factors that, in combination, are potentially preventing competitive pressure delivering benefits to customers in terms of lower prices and increased choice of products and services. Several of these revolve around the asymmetric position between incumbent suppliers and the new entrants in terms of scale and scope of operation.

In general, the assessment suggests that there are several generic sets of barriers that apply to both the electricity and gas markets, the implication of which is that potential suppliers at worst may not even contemplate entry into segments of the markets. These barriers result in new entrants facing asymmetrically high risks and costs that potentially remove the scope for them to profitably and sustainably compete with the incumbent even when they may be more efficient, innovative and flexible in their strategies. They are:

- Overall gas and electricity market size;
- Scale and diversity of incumbent supply position;
- Lack of fuller contract market liquidity;
- Issues around the retail price-controls, including allowed retail margins;
- Quality, transparency and availability of data;

- Operational rules and governance.

We then considered options for dealing with some of these barriers. We examined eight in particular:

- (1) Incentivising natural gas connections and further roll-out (Gas).
- (2) Synchronisation of retail market processes and systems with other markets.
- (3) Removal of “K-factors” (Electricity only at this stage).
- (4) Scope, structure and transparency of price controls.
- (5) Shallow Supply model.
- (6) Divestment of the incumbent and/or restrictions on bidding or customer acquisition.
- (7) Improving contract market liquidity (Electricity only).
- (8) Data availability and transparency.

We assessed each in terms of their impact on competition, consumers and sustainable development. The impact is considered relative to a do nothing position that assumes there is no change to the current market and regulatory arrangements and measured in terms of the following five ranks:

Large benefit	✓✓
Small benefit	✓
Neutral	-
Small cost	x
Large cost	xx

(We recognised the difficulty in estimating such effects without a full impact assessment and therefore we accepted a subjective nature to the results, however we believe this initial assessment provides a starting point for a further more detailed analysis subsequently as the potential actions are operationalised):

Barrier	Option	Impact on Competition	Impact on consumers	Sustainable development
Scale of market	Gas Connection	✓ Main benefit on	xx to ✓ dependent on	✓/✓✓ dependent on

		domestic market, but scale is still a concern	relative cost of facilitating systems and level of new entry	number of new connections
	Market synchronisation	✓	*/✓ dependent on costs of implementation	*/✓ dependent on costs of implementation
Price control	K-factor removal	✓✓ major short-term improvement in the non-domestic market	✓✓ (non-domestic) */✓ (domestic)	*/✓
	Scope of Control	✓	✓	-
Market Structure	Shallow supply model	✓	✓ (on cost) * /- (on product choice and innovation)	✓
	Divestment	✓	xx (loss of economies of scale in short-run)	-
	Contract market liquidity	✓✓	✓	✓
Operational rules	Data availability	✓✓	✓	-

We then considered several “scenarios” under which competition might develop in NI in the short and longer terms and began a discussion around how chosen policy options might interplay with these scenarios. Taking account of possible future developments, there are several actions that we proposed to consider in more detail based on our initial assessment above.

Electricity market proposals

In the short-term, to:

- Actively seek to address concerns regarding data availability or transparency.
- First re-consider, and then where appropriate support, activities to further develop contract market liquidity.

- Progress our work in conjunction with the CER/SEM to agree and implement a programme of retail market synchronisation.

In the medium-term, to:

- Develop criteria for assessing whether the scope of the NIEE price-control can be reduced.
- Review inclusion of the K-factor in NIEE supply price-control.
- Review price control transparency issues and future work requirements in terms of the level of allowed regulated margins. Both areas are already recognised within the Utility Regulator and their assessments will be built into future price control work and methodologies.
- Consider potential for shallow supply model.

Gas market proposals

In the short-term, to:

- Examine options, alongside DETI and Government as necessary, to re-invigorate economic and co-ordinated gas roll-out, both to new areas and within existing distribution/supply areas.
- Actively seek to address concerns regarding data availability or transparency.
- Review through GMOG the key operational and technical issues raised.
- Progress our work in conjunction with the CER/SEM to agree and implement a programme of retail market synchronisation.

In the medium-term, to:

- Consider the need if any to impose more structure or transparency on the Phoenix tariffs through the price-controls.
- Review price control transparency issues and future work requirements in terms of the level of allowed regulated margins. Both areas are already recognised within the Utility Regulator and their assessments will be built into future price control work and methodologies.
- Consider potential for shallow supply model.

4) **Key Issues made in Response to the consultation**

This Section of this paper gives a brief summary of the consultation responses in relation to the key questions raised, it is not at all easy to sum up the full flavour of all responses received – many were lengthy and detailed, and delved into significant involved and at times technical issues. We do appreciate that any summary risks losing some of the richness of the comments received, and we have asked our gas and electricity teams to further consider the detail of the responses to pick up the more detailed points as necessary. For those who wish to see the complete picture, **please note that all non-confidential responses can be viewed on our website.**

The Utility Regulator received 12 responses to the consultation. Full copies of the 11 non confidential responses can be viewed on our website at <http://ofreg.nics.gov.uk/01%20September%202008.htm>. In the table below we list the companies who responded.

Companies from the Electricity Sector	Companies from both sectors	Companies from the Gas Sector
<ul style="list-style-type: none"> • NIE 	<ul style="list-style-type: none"> • Energia 	<ul style="list-style-type: none"> • Phoenix Distribution
<ul style="list-style-type: none"> • NIE Energy Supply 	<ul style="list-style-type: none"> • firmus energy 	
<ul style="list-style-type: none"> • ESB 	<ul style="list-style-type: none"> • Airtricity 	
<ul style="list-style-type: none"> • ESBIE 		Other organizations
<ul style="list-style-type: none"> • BGES 		<ul style="list-style-type: none"> • CBI
		<ul style="list-style-type: none"> • CCNI

The key issues raised are outlined below, under each of the questions asked in the consultation.

Q1: Do respondents agree with our overall summary of NI energy retail market competitiveness and do you feel we have missed anything of significance that should have been noted at this stage?

Most of the respondents broadly agreed with the overall summary, particularly with the statement that there is little competition in the domestic energy sector. Some of them noted that the domestic market it is likely to remain unattractive.

On this, two of the respondents have mentioned that this is not unexpected, as the market was liberalized in November 2007 and therefore is still immature.

Respondents added several measures which could increase competition from their points of view; most of them are examined later in the consultation paper, such as a supplier obligation to submit competitive tenders (as a percentage of volume or customers), re-branding to avoid confusion between companies, promotion of dual fuel offers, review of the regulated supply margin, transparency of PSO, SSS and UoS charges, increase of information in price control reviews, possibility of more flexible contract terms versus the structure of Directed Contracts, etc.

Q2: Are there additional indicators of the current state of competition in the retail markets that we should be considering?

Two of the respondents think that there are no additional indicators to the mentioned in the consultation paper.

On the other hand, some respondents have added indicators to determine if effective competition exists. Some of those additional indicators are: number of tenders made and units tendered, number of therms/units switched in a year, number of gas contracts that are put out to competitive tender, market information and transparency, independency of the market processes and services and their level of anticipating future market requirements, market share (in volume and number) lost by the incumbent and level of innovation.

Q3: Do respondents agree that the analysis has identified the major potential barriers to competition in the domestic and non-domestic electricity markets or are there additional barriers that you feel we should take into consideration?

Four responses agreed that the main barriers have been comprehensively identified in the analysis. However, other respondents considered it necessary to add potential barriers to electricity market competition. (Several of the mentioned barriers are not completely additional, as they are already considered in the consultation paper, but the respondents go into them in a more detailed way).

Mentioned additional barriers include: limited market size and potential, the fact that the incumbent have access to long term plant output contracts while the independent suppliers have to source similarly priced contracts, meter charges, lack of transparency of Use of System Charges, lack of transparency of pass through charges, the availability of hedging cover (particularly peak cover) and the annual structure of transmission and distribution charges and of the PSO Levy.

Q4: Do respondents agree that the analysis has identified the major potential barriers to competition in the domestic and non-domestic gas markets or are there additional barriers that you feel we should take into consideration?

As in the previous question, some respondents have answered that the main barriers have been identified in the consultation paper. The rest of them pointed to certain potential barriers, some of them parallel to the barriers identified in the retail electricity sector. Noted barriers by respondents are: the limited market size and potential, the “k factor” aspect of the supply price control, the low supplier margin, transparency in customer data, punitive costs for a shipper, the period of exclusivity granted to firmus Energy, 90 days period in switching, meter reading costs, NIAUR primary duties for gas, degree of vertical integration in supply and distribution, etc.

One respondent considered that there are no big barriers in the retail gas market and that level of data transparency is high enough.

Q5: Have we missed anything important in relation to potential actions - are there additional regulatory actions that the Utility Regulator should consider beyond those described above?

Most of the respondents made more detailed comments on barriers previously pointed and included as well as potential policy options in the consultation paper, such as the removal of the key factor, the improving of liquidity in the market or the shallow supply model.

Moreover, they have pointed out additional regulatory actions that could help to tackle some barriers. Some of these mentioned actions from the electricity companies’ point of view are that addressing process and technical constraints should be considered a priority matter, that changes to regulated charges or incumbent tariff arrangements should be made on a timely basis and accepted consultation, to take into account all regulatory obligations imposed on the businesses whenever regulating in energy issues, to tackle unnecessary complexity and increase transparency, and to sell the “Landbank”.

Some specific additional regulatory actions in the gas sector were mentioned as well, such as to promote the environmental benefits of natural gas, to encourage fuel switching, to identify reasons for customers not switching,

The additional regulatory measures applicable to both sectors were mainly the proper separation between the incumbent supplier and the network company and the full consider of the potential benefits from the all-island market reforms and of leveraging gas competition. Some respondents noted the need for actions to

remedy barriers to be considered on an all-island basis where appropriate.

Q6: Do you agree with the initial assessment of the impact of the proposed regulatory actions on the electricity and gas retail markets? Do you think we have materially mis-estimated potential impacts?

Most of the respondents have commented more in detail the policy options, without saying their views on the quantification of the potential impacts. However, two of the respondents have expressed their opinion in terms of changing the initial impact assessment. Comments and assessments are mostly related to impacts on competition and on customers.

Q7: Do respondents agree with our analysis above in relation to scenarios and their interplay with options, and with our proposed actions?

In this question, two respondents think that there is no need to define a market scenario at this point. NIEES noted that the three proposed scenarios seem to occur simultaneously and has raised questions relating the models to all-island market structure.

Apart from the question raised in the consultation paper, some of the respondents have expressed their views in a number of issues, such as data publication, mechanisms to support fuel poverty, demand side management, smart metering, selling practices, etc.

Decision Paper 2: Sustainability – Consultation & Way Forward

Sustainability the Regulator’s Role: Consultation Published 31 March 2008

In March 2008 the Utility Regulator published a consultation document entitled “Sustainability: the Regulator’s Role”. The consultation was preceded by a number of workshops and meetings, which were held to gather views from a number of stakeholders from government, industry and the non government sector. The aim of the process was to gather views on how best the Utility Regulator could contribute to sustainable development. The consultation ended in August and 22 responses were received.

This decision paper contains four sections:

- 1) Context
- 2) Strategic intent and action plan
- 3) What the consultation said
- 4) Key issues raised

1) Context

Northern Ireland’s utilities could do more in relation to sustainability, and doing more is important for the protection of present and future customers, for example:

- a) Northern Ireland’s ecological footprint is higher than any other region in the UK;
- b) Northern Ireland’s reliance on imports of fossil fuels means that we are exposed to world economic, political and natural events which, through their effect on world fuel prices, have high impacts on Northern Ireland’s utility customers;
- c) Converting much of Northern Ireland’s electricity generation into highly efficient combined cycle gas turbines (CCGTs) has helped to hold Northern Ireland’s greenhouse gas emissions at lower levels than would otherwise have been the case. However, conversions to CCGT can no longer be relied upon to continue to do this;

- d) Many customers within Northern Ireland suffer from fuel poverty and could potentially, in the event of water charging, suffer from water poverty.

In addition Northern Ireland's utilities are vital to the achievement of policy aims and targets set at the Northern Ireland, UK and EU level. The following is a list of some of the main targets:

- a) DETI Strategic Framework 2004

12% of electricity generated from indigenous renewable sources by 2012, 15% of which are non wind.

- b) NI Sustainable Development Strategy

An aspirational/conditional target in the NI Sustainable Development Strategy (SDS) of 40% by 2025.

- c) NI Programme for Government targets

Reducing greenhouse gas emissions by 25%, below 1990 levels by 2025.

Ensuring that 12% of our electricity is generated from indigenous renewable sources by 2012.

- d) EU Targets

In spring 2007, European Union Heads of Government agreed to a binding target that 20% of the EU's energy (across electricity, heat and transport) should come from renewable sources by 2020. The UK's proposed share would be to achieve 15% of the UK's energy from renewables. As this target relates to electricity heat and transport DECC estimate that electricity's share of the target will be the highest and will be met by extending and raising the level of the Renewables Obligation to encourage up to 30-35% of our electricity to come from renewable sources by 2020.

- e) UK Government Targets UK Energy White Paper

Renewables as a proportion of our electricity supplies of 10% by 2010, with an aspiration for this level to double by 2020.

- f) UK Renewable Energy Strategy Consultation

Extending and raising the level of the Renewables Obligation to encourage up to 30-35% of our electricity to come from renewable sources by 2020.

Reducing the UK's carbon emissions by at least 60% by 2050.

g) The Water Framework Directive

Maintaining “high status” of waters where it exists, preventing any deterioration in the existing status of waters and achieving at least “good status” in relation to all waters by 2015.

Other developments in the pipeline include DETI’s Strategic Energy Framework (SEF) which is currently being developed. DETI has responsibility for wider energy policy at the Northern Ireland level and the output from the SEF will be fed into our action plan as part of an on going process.

2) Strategic intent and action plan

The Utility Regulator’s primary aim is to protect the interests of Northern Ireland’s utility customers, both present and future. Our strategic intent is to ensure that Northern Ireland’s gas, electricity and water industries are developed in a financially, socially and environmentally sustainable fashion. This will ensure that we are fulfilling our role in ensuring that gas, water and electricity consumers are protected, both today and tomorrow.

We have developed our action plan bearing in mind the following factors;

- a) Northern Ireland’s overall economic competitiveness;
- b) Northern Ireland’s vulnerable customers;
- c) Northern Ireland’s security and quality of supply;
- d) sustainable long-term finance;
- e) the cost of carbon and potential future price and availability of carbon fuels.

It should be noted that these factors are embedded in our thinking not only as part of our sustainability action plan, but also as part of our everyday work.

As part of the consultation we identified three main roles for the Utility Regulator in contributing to Northern Ireland’s overall sustainability, these were;

- a) gathering and publishing more evidence;
- b) contributing our expertise and experience to wider government policy;
- c) regulating differently.

Most of the respondents who commented were broadly in agreement with the key roles identified. Therefore we have developed our action plan in line with these roles.

Gathering and publishing more evidence	
<p>Energy</p> <p>Many respondents to the consultation listed information which they would consider helpful but which is not available. However a note of caution was sounded regarding the need not to overburden companies.</p> <p>We propose to work with the electricity and gas companies to develop an annual report on the energy market in Northern Ireland. We recognize that it is important not to overburden regulated companies with requests for information. Therefore initially we propose to work with the companies to identify information which is readily available and which can be translated into a useful and user friendly report.</p>	
Year	Action
2009/10	Consult on content of first energy annual report
2010/11	Obtain feedback from stakeholders on first energy annual report
2009/10 & 2010/11	We have introduced a number of sustainability performance indicators for our “Annual Information Return,” (AIR 08) including energy from renewable sources, the use of trenchless technologies; reuse of excavated material; a measure of carbon emissions over the period. We will assess and publish performance. We will continue to develop and review NI Water’s annual sustainability return, reporting and benchmarking performance.
Contributing our expertise to wider government policy	
<p>Most respondents felt that the Utility Regulator should contribute to wider government policy. Therefore we propose to work with government departments in relation to the development of policies in relation to sustainable development, energy and water efficiency and affordability, and renewable energy.</p>	
2009/10	Work with DETI and regulated companies in respect of interpretation and implementation of the DETI Strategic Energy Framework (SEF). Meet with NIE, Phoenix and firmus with DETI to identify implications.
2009/10	Work with DETI to help develop policies in relation to the renewable heat in Northern Ireland.
2009/10	Continue to take part in and contribute our expertise to the Northern Ireland Fuel Poverty advisory group and the interdepartmental group on Fuel Poverty.
2009/10 &	We are working with NI Water on sustainability and climate change to

2010/11	develop and highlight issues and consider guidelines for inclusion of issues within price controls. Discussions feed into the statutory stakeholder working group for debate, thereby informing the Ministerial Guidance developed and consulted on by the DRD policy unit. Issues being addressed include, Renewable Energy Generation; Educational Funding to promote water efficiency; reducing the carbon footprint; Sustainable Urban Drainage Systems (SUDs).
<p><u>Regulating Differently</u></p>	
<p>As part of the consultation process we identified 8 themes which we further refined into 11 specific proposals. Having taken on board all of the responses to the consultation we have decided to set out our action plan under the headings of the themes identified.</p>	
(1) 2009/10	<p><u>Create clarity for licence holders and customers regarding licence holder duties.</u></p> <p>Within this the suggested specific actions were creating a cross utility licence condition requiring licensees to have in place environmental policies and creating a cross utility requirement to report annually on sustainability activities and initiatives.</p> <p>We have taken on board all of the comments received and in particular note the environmental policies and initiatives which the companies already have in place. We also note the need to ensure that we do not overburden companies with requests for information. Therefore we have propose;</p> <ul style="list-style-type: none"> a) That a cross utility licence condition to have in place environmental policies is not necessary at this time, however the option for such a condition will be kept under review; b) We will also work with the utility companies to develop an annual report as noted above under “gathering and publishing more evidence”. We will work to ensure the report contains useful information on sustainability activities and initiatives. <p>Timing as noted above under gathering and publishing more evidence.</p>
(2)	<p><u>Giving Better information to customers.</u></p> <p>The two main ways of delivering information to customers is through bills and promotional information, and through meters</p> <p>Although putting environmental information on bills and promotional literature was given relatively lower scores by respondents in respect of the measures for success set out in question 7.1 the consultation, it faired better when respondents were asked to list their priorities. In addition fuel mix disclosure on electricity bills is a requirement under European Directive 2003/54/EC. Therefore we propose to work as part of the SEM to ensure that effective mechanisms for fuel mix disclosure are adopted on an all island basis. Further we propose to work with electricity supply licence holders and stakeholders to develop an easy to understand system of delivering environmental information to customers.</p> <p>The other main method of sending information to customers is through meters. Many respondents to the consultation felt that work on “smart meters” should be a priority.</p>

	Therefore we have proposed the following actions.
2009/10	We will put in place supply licence conditions in relation to fuel mix disclosure.
2009/10	Complete cost-benefit analysis to determine smart metering implementation policy. Consider the best way to factor in the benefits of smart metering in the provision of tariff and usage information to customers and also back to suppliers and networks. ¹
2010/11	We will review the format of environmental information on bills and if necessary seek to make improvements.
2010/11	We will require NI Water to prepare a 25 year strategic direction statement which sets out its long-term strategy to support environmental sustainable strategies.
(3)	<p><u>Sending the right signals to customers.</u> Tariff structures and connection charges.</p> <p>The consultation paper discussed the merits of a rising block tariff system. Respondents were split on rising block tariffs, some stating that (in relation to electricity) time of day tariffs were a more sophisticated means to encourage customers to use less carbon intensive generation, others felt that any review of tariffs must consider vulnerable customers.</p> <p>Therefore we propose the following actions.</p>
2009/10	In relation to energy publish a paper which consults on a high level design in respect of social tariffs. Unless a method can be found to include the oil industry in any social tariff system this paper will concentrate on the electricity industry.
2009/10	Subject to ministerial buy in/feedback from stakeholders on the consultation, operationalise new social tariff design.
2009/10	On time of day tariffs, develop proposals on electricity tariff design to consider the benefits of accurately reflecting the System Marginal Price to manage peak consumption. ²
2009/10	Examine gas connection policy statements and will take into consideration any sustainability issues.
2009/10	Examine the electricity grid connection policy in relation to embedded generators connecting to the electricity grid and consult on the way forward.
2009/10	Within water we see education as currently the best means at our disposal to send the right signals to customers. We will review strategies for promoting the efficient use of water and support NI Water in Funding

¹ Work on smart meters will be taken forward as one element of the SEM demand response management work stream.

² Work on time of day tariffs will be taken forward as the second element of the SEM demand response management work stream.

	Educational programmes targeted at water efficiency.
(4)	<p><u>Electricity Networks and Access for Renewables</u></p> <p>We propose to work with our partners and stakeholders to ensure that renewable generation can be equitably accommodated on the electricity network.</p> <p>Further we propose to work with our partners and stakeholders to progress the accommodation of demand response management on the grid.</p>
2009/10	We propose to work closely with the network owner and DETI to plan and deliver a “Grid Development Strategy” for NI and to implement necessary network investments.
2009/10	As part of our demand response work stream within SEM we propose to develop a coherent set of arrangements covering Smart Grids. ³
On Going	Sustainability issues will be explicitly part of the approach to information requests at the start of price controls across all three directorates including assessment of investment requirements and network planning issues to take account of such things as flooding, subsidence and the accommodation of renewables.
(5)	<p><u>Encouraging Energy Efficiency</u></p> <p>We propose to continue to promote the efficient use of energy through the following actions.</p>
2009/10	Implement decisions from the review of Energy Efficiency Levy.
2009/10	Publish new framework document on the new operational structure following from the review decision paper.
2009/10	Demand reduction and energy efficiency will be the fourth element of the SEM demand response management work.
(6)	<p><u>Promoting Gas</u></p> <p>Consultation responses were split on the contribution of gas to promoting sustainability. There was an acknowledgement that gas is lower carbon than the fuels it displaces, but there was also concern expressed that gas should not be seen as more important than renewables. We propose to take the following actions forward.</p>
2009/10	Work with DETI to complete a feasibility study on the viability of extending the gas network beyond the current licensed areas.
2009/10	Develop a strategy in relation to the development of gas within the existing licensed areas. Within this we will take on board all of the ideas submitted as part of the consultation.
2009/10 and 2010/11	Take forward our work on common arrangements for gas (CAG) on the island of Ireland. This work will take into consideration such issues as line pack and storage. The work should also help to promote competition and therefore the gas industry.

³ Smart Grids is the third element of the SEM demand response management work.

(7)	<p><u>Water</u></p> <p>We propose to develop sustainability within the NIW price control</p>
2009/10	<p>Work with DRD in relation to the development of NIW's price control 2010 (PC10). A working group has already been established to identify the primary issues associated with sustainability and climate change, which may reasonably be expected to have an impact on NIW's price control. The group will provide information to the Department to inform the provision of guidance in relation to PC10.</p> <p>We propose to review NI Water's water resource management strategy contained within the PC10 business plan.</p> <p>We propose to review leakage methodologies and targets for achieving an economic level of leakage.</p>
(8)	<p><u>Keeping our own house in order.</u></p> <p>The Utility Regulator intends to demonstrate leadership by incorporating sustainability principles into our every day work.</p>
2009/10	<p>We will set up staff group to include representatives from all directorates to gain staff buy in for improving our own energy efficiency and reducing our own impact on the environment.</p>
2009/10	<p>The group will draft and consult internally on our own office procedures for reducing or impact on the environment. This will include improving staff awareness of energy efficiency, reducing unnecessary work related travel, reducing our other impacts on the environment by for example reducing the amount of paper we use and improving our office recycling practices.</p> <p>We will review our procurement policy and consider the new guidelines issued by the Equality Commission on equality of opportunity and sustainable development in public procurement in NI.</p>

3) What the consultation said

The consultation was divided into several chapters. For each chapter we specifically asked a number of questions. The following is an overview of the paper.

Chapters 1-3 of the consultation document set out to establish the context of sustainability in utility services within Northern Ireland. The challenge of meeting today's needs without compromising those of tomorrow is key. This challenge is important within Northern Ireland government policy, as indicated in the Executive's "Programme for Government," which states that "this Executive recognises the importance of Sustainable Development – encompassing economic, social and environmental considerations."

In relation to meeting today's needs Northern Ireland has historically high energy costs, and water costs may also be high. These factors impede economic competitiveness and impact on vulnerable customers who may struggle to pay utility or other essential bills.

In relation to meeting tomorrow's needs the utility sectors are capital intensive and characterized by long asset lives. Within this context it is important to both manage risk and create inter-generational equity and correct allocation of costs over time.

There are synergies between our goals in relation to sustainability, security and diversity of supply, protecting the vulnerable and protecting the environment. For example in the energy sector, fuel diversity and energy efficiency have important contributions to make to all of these goals.

Chapters 4, 5 and 6 of the consultation document set out the existing policy instruments and the Utility Regulator's existing duties and objectives. They also set out to examine the effectiveness of the status quo and examine how the Utility Regulator can contribute most effectively to sustainable development. The paper identified three main ways by which the Utility Regulator can contribute to the sustainable development of Northern Ireland's utilities, these are;

- a) gathering and publishing evidence;
- b) contributing to wider energy policy;
- c) regulating differently.

Chapter 7 set out a range of possible new approaches and actions in relation to how we regulate. Respondents were asked to rate the proposals and to identify any further actions not listed.

4) Key issues Raised

The Utility Regulator received 22 responses to the consultation. While all responses were considered in detail the following key points are intended as a brief synopsis of the main points from the responses. While we have attempted to represent all responses fairly, it should be noted that due to the volume of responses it is impossible to include every statement from every respondent here. However full copies of all the responses can be viewed on our website at: <http://ofreg.nics.gov.uk/Publications%20General.htm>

A list of respondents is attached as an Annex to this Decision paper.

It should also be noted that prior to completion of the consultation paper the Utility Regulator held a number of stakeholder workshops and meetings with groups from industry, government and non government organizations. Feedback from the workshops was taken into consideration when formulating the consultation paper and was also taken into consideration in formulating the action plan.

The initial consultation was considered by each of the following Assembly Committees. After the initial responses were received a synopsis of consultation responses was then provided to the committees. Following consideration of the synopsis responses were formulated by the:

- Committee for Enterprise Trade and Investment (ETI),
- Committee for the Office of the First Minister and Deputy First Minister (OFMDFM),
- Committee for Regional Development,
- Committee for the Environment,

Q1 Equality of Opportunity

In terms of equality of opportunity most respondents stressed the importance of having regard to the needs of vulnerable customers. The Utility Regulator itself has statutory duties in that regard and has reviewed its compliance with equality regulations in conjunction with the Equality Commission and has agreed an action plan in that regard.

The OFMDFM Committee queried why we had decided that it was not necessary to carry out a full equality impact assessment. We are fully aware of our responsibility to promote equality. Our decision not to carry out a full equality impact assessment on our sustainability strategy was taken after our initial screening found that a full impact assessment was not necessary for the strategy. However the separate elements of the strategy, for example, examining tariff structures, will be progressed in the normal way with a full consultation process and appropriate screening.

Q3.1 Balance between present and future climate change costs

Several respondents specifically referred to the Stern review and most agreed to the need for urgent action to address climate change. Many respondents agreed that the cost of adapting to/mitigating climate change should be equitably shared between present and future customers. Within this most respondents stressed

the need for long term investment decisions to the benefit of both present and future customers, taking into consideration present vulnerable customers and present customers' ability to pay. One respondent stressed the need to continually review policies on the basis of best available evidence.

The ETI Committee recognized that sustainability is essential to the Utility Regulator's primary objective of protecting customers. It stated that in this regard the "the Utility Regulator's role should be to proof the pricing and investment claims of market players in respect of renewable energy obligations and sustainable development requirements rather than creating new targets of its own."

The ETI, Regional Development and Environment committees agreed on the need for balance in protecting present and future customers, particularly in the current economic climate of rising prices, with careful consideration of the social and economic factors affecting consumers particularly those in fuel poverty.

Q3.2 Relationship between sustainability and security and diversity of supply

Over half of the respondents think that energy efficiency and increasing the share of renewable energy are important not only to sustainability but also to security and diversity of supply. Many referred to the need for more effort to be made in overcoming the barriers to renewable generators accessing the grid.

NI Water also said that there should be an acknowledged risk between the level of investment and the security and diversity of supply and that there was historically low investment in NI's water systems.

Q3.3 The degree to which sustainability issues should drive the Utility Regulator's first NI Water Price Control.

The respondents who answered this question agreed that sustainability is an important consideration in a price control. Specific issues raised included:

- The fact that NI Water is a high energy user and in a prominent position, means that it should lead by example in terms of energy efficiency and renewable energy.
- Historically there has been under investment in the water infrastructure.
- Value for money should be a prime consideration rather than just lowest possible cost.

- Leakage and the efficiency of the infrastructure is very important.
- Water efficiency is very important. Water pricing and metering signals could potentially influence water efficiency.
- As water is essential for life, balance is particularly important especially in relation to vulnerable customers.

The Regional Development and Environment committees both pointed to the need for the water price control to follow Ministerial guidance.

Q3.5 Monetary value of CO₂ in business cases

Most agreed that the monetary value of CO₂ should be included in business cases. Some reservations were expressed regarding the impact on consumers of increased costs. The need for early guidance was also stressed.

Q3.6 Inclusion of 'carbon footprint' monitoring and target setting within the new regulatory contract at the first NIW price control.

NIW and UK Water both stated that this would require significant resource input, with NIW stating that they would welcome the requirement to use a common methodology with Scotland, England and Wales. The majority of respondents felt that 'carbon footprint' monitoring is important with Action Renewables stating that the whole 'ecological footprint' should be looked at.

Q3.7 The benefits of going beyond the 'economic level of leakage,' possibly by the inclusion of carbon shadow price calculations.

The respondents who answered this question agreed that leakage is an important issue and that leakage should be minimized. Many respondents pointed to the fact that there is a cost both to consumers and to the environment of abstracting and treating water which is then lost to leakage. This is particularly true at a time of rising energy prices due to the energy intensive nature of the treatment and pumping of water. NIW welcomed the Utility Regulator's intention to study the full cost of the economic level of leakage. One respondent raised a concern that resources would be diverted away from improvements to waste water infrastructure.

Q3.8 The degree to which NIW should be incentivized to increase its

uptake of renewable energy and reduce its non-CO₂ gas emissions and mechanisms by which this might be achieved.

NIW said that the Utility Regulator should note that NIW is obliged to comply with the Carbon Reduction Commitment and as such will be subject to compliance costs. NIW would be grateful for guidance on what renewable energy projects will be progressed through regulated capital.

Other respondents pointed to the fact that NIW is a high energy user in a prominent position and could lead by example. Phoenix Natural Gas pointed out that natural gas can also be used along side renewables to reduce CO₂. Other respondents listed important new and existing technologies such as sustainable drainage systems (SUDS) and better use of wetlands.

Q4.1 Existing policy instruments

Respondents were asked to provide ratings for existing instruments in terms of their public profile, ability to protect customers and ability to influence consumers. Of the 22 responses, over 50% did not complete any ratings while some others only commented in their area of expertise. However, the results did indicate support for initiatives such as Key Pad Metering and Energy Efficiency Advice provision.

Q5.1 Balance between Utility Regulator's duty to protect present and future customers.

The majority of respondents felt that action should be taken sooner rather than later. There was also a call for a consistent approach across the utilities and for more consultation from the Utility Regulator. Respondents recognised the need to protect current, particularly vulnerable, customers from unacceptably high costs and the Consumer Council asked for more clarity on how social action would fit into the plan for sustainability.

Respondents were widely split on the promotion of natural gas as a means to reducing carbon emissions. Some respondents made the point that gas is still a finite fossil fuel, and many of these made the point that the Utility Regulator should have an equal duty to promote renewable energy (currently the Utility Regulator has a duty to promote gas). Other respondents were in favour of gas promotion and tended to concentrate on energy efficiency improvements which often accompany conversions to gas. Viridian said that the Utility Regulator should take advantage of opportunities on the island of Ireland to create flexible and efficient gas transmission pricing and increase competition in gas.

The ETI, Regional Development and Environment committees agreed that there

is a need for balance they also point to the need for careful consideration of the social and economic factors affecting consumers.

Q5.2 Role and nature of statutory guidance from Ministers to the Utility Regulator.

Of the 11 respondents who answered this question, all but two felt that there was a role for ministerial guidance. Points noted included the need for government targets to be taken into consideration when setting price controls and the need to coordinate government policies that affect the utility companies. However, a number of respondents stated that although there should be a role for ministerial guidance, Utility Regulator independence, transparency and accountability must be maintained. Two respondents stated that they were unaware of any specific issues or current difficulties.

The Committees who responded to the consultation after the initial responses were received also stressed the need for the Utility Regulator to frame policy within its statutory duties and within the context of Northern Ireland government policy. The Regional Development committee stressed the fact that guidance is issued by the Minister for Regional Development and that any Utility Regulator policy must be reflective of that guidance.

Q5.3 Respondents were asked to highlight necessary actions that can not be taken under the Utility Regulators existing powers.

There were 12 respondents who answered this question. Phoenix Natural Gas felt that the Utility Regulator's powers should remain unchanged. They also felt that there should be more focus on the existing duty to promote gas and that there should be more transparency.

Of the other respondents, 4 felt that sustainability should be a primary duty, 3 felt that the Utility Regulator should be given a greater role in promoting heat and renewable energy and 3 wanted to see more action on tariffs. Other responses included calls for;

- better regulation of the home heating oil industry,
- more power to have a say in planning applications e.g. for grid reinforcements,
- more alignment between our statutory duties on electricity and gas, particularly in relation to promoting competition, and

- more power to review aspects of water and sewerage policy linked to water price control.

Q5.4 Should the Utility Regulator seek to be designated under section 25(1) of the Northern Ireland (Miscellaneous Provisions) Act 2006?

Of the responses received, 4 respondents answered yes to this question. The remainder of respondents either did not comment or said that it appeared unnecessary given the existing duties.

Q6.1 Three main roles for the Utility Regulator;

- a) gathering and publishing more evidence;**
- b) contributing our expertise and experience to wider government policy;**
- c) Regulating differently.**

Most of the respondents who commented were broadly in agreement with the key roles identified. In executing these three roles, stakeholder engagement and making information accessible were also both identified as important. NI Water pointed to the need to use existing information more effectively as it is important not to overburden companies with information requests.

Q6.2 Useful data not currently available.

The following were listed as useful data not currently available at the Northern Ireland level;

1) Energy

- energy use by sector,
- energy use by type,
- price comparisons with EU, GB and ROI,
- generation by fuel type,
- carbon emissions by sector and fuel type,
- energy market shares,
- uptake numbers on different payment methods by geographical location,
- information on new technologies and their efficiency in the NI context;

2) Water

- Energy consumption/cost of WWTW process type.
- Energy consumption/cost per range of effluent consistent standards.

Q6.3 Innovative methods of developing and promoting the gas industry.

Issues raised included the following;

- While a number of respondents agreed that conversions to natural gas are a medium term solution to reducing carbon emissions, some respondents felt that promotion of the gas industry should be part of a package which is linked to energy efficiency and that renewable energy should be seen as more important.
- Suggestions for promoting the gas industry included the following;
 - focus on social housing,
 - give wider access to allowances to encourage new connections,
 - provide Energy Efficiency Levy support for conversions to natural gas, without the sharing of energy savings with gas companies.
 - encourage dual fuel energy suppliers,
 - improve natural gas storage facilities and make better use of linepack,
 - improve competition in the natural gas sector,
 - offer flexible capacity booking,
 - encourage Translink to use compressed natural gas and other alternative fuels.

Q6.4 How should the solid fuel and oil industries contribute to social and environmental sustainability?

Responses included the following;

- the Energy Services Directive should be used to help, but this will be difficult to enforce given a fragmented industry,
- at a minimum the oil industry should protect the vulnerable by allowing a range of payment methods (which do not penalise those on a budget),
- the Energy Efficiency Levy should be extended to oil and gas (perhaps captured through oil importers),
- there should be further work on co-fired technologies utilising waste products.

- the oil and coal industries should be encouraged to develop renewable projects.

Q6.5 Could the regulatory model used to promote gas also be used to promote heat? Would better regulation aid the development of community heat?

Some respondents suggested that the Utility Regulator's duty to promote gas could have a detrimental affect on the heat industry where there is no duty to promote.

One respondent stated that it was keen to examine the "Energy Services Company" (ESCO) model.

Chapter 7 of the consultation related to specific approaches and possible actions.

Q7.1 Respondents were asked to rate (from 1-10) policy instrument proposals based on seven different categories. These consisted of:

- 1 Potential Certainty of Outcome
- 2 Potential Cost effectiveness
- 3 Certainty for investors
- 4 Potential to provide equity for consumers
- 5 Potential to encourage innovation
- 6 Good fit with other NI government departments
- 7 Good fit with competitive energy markets

Many of the respondents did not rate any of the policy instruments. Of those who did provide scores, quite often these only related to proposals that concerned them directly. Due to the low level of responses to this question we have not provided a full analysis of the scores, however the feedback still provides some useful insight into respondents thoughts on potentially useful policy instruments.

Those who did respond recognised the importance of the Utility Regulator improving its own practices and procedures. The responses also suggested that the price control process, with regard to both water and energy, should take into

account the changing nature of sustainability and environmental problems. This would suggest that respondents recognise the potential problems and opportunities across the utilities in relation to sustainability impacts.

Other priorities highlighted by respondents to the question included the undertaking of a full strategic review of energy efficiency delivery mechanisms and actively ensuring that renewable generation can be accommodated on the electricity network.

Interestingly, the three proposals given the lowest priority by respondents were:

- The cross-utility requirement to report annually on sustainability activities and initiatives,
- A licence condition requiring environmental policies to be in place,
- Requirements on licence holders to provide customers with environmental information in relation to fuel mix.

These instruments provide licence holders with a formal requirement to undertake certain activities in relation to sustainability. Although respondents recognise the need for environmental impacts to be factored into the price control, there appears no appetite for formal reporting requirements. This seems slightly contradictory. However it is worth noting that some responses welcomed formal reporting requirements as long as the regulatory burden was not too heavy, even though this may not have been well reflected in the figures.

Q7.2 Respondents were asked to prioritise the top three proposals and rank in order of importance.

In response to this question, respondents gave top priority to the strategic review of energy efficiency and ensuring renewable energy access to the electricity network whereas low priority was given to consideration of climatic changes in price reviews. Although the latter was given greater priority in the responses to 7.1, only one respondent considered it worthwhile to include it in the list of their top three priority proposals. The reason for this is not clear, but may be due to prioritisation being given to other more easily achievable alternatives. It may also be due to the fact that several respondents chose to list priorities but did not provide responses to question 7.1.

This reasoning may also help to explain the increased priority of formal reporting requirements in the form of annual reports and environmental policies.

Q7.3 Respondents are asked to list any further proposals which they think

should be considered.

Further proposals included the following;

- developing a more comprehensive consultation process on individual proposals,
- introducing green tariffs,
- working more closely with the Planning Service to ensure targets can be met,
- imposing financial penalties for failure to meet environmental targets,
- carrying out further work to remove barriers to micro-generation/embedded generation,
- carrying out further examination of “feed in tariffs” as a support mechanism for renewable energy,
- undertaking more research into water metering,
- providing more transparency on connection charges,
- undertaking more work to facilitate electric vehicles,
- providing a 25 year strategic direction for utilities,
- adopting a “catchment based approach” to developing sustainability in the water industry,
- undertaking more work to develop sustainability policies across the island of Ireland.

Other comments:

Respondents welcomed the opportunity to comment on the strategy document but also highlighted the need for continued open consultation on the detail of any proposals.

Respondents were split on the usefulness of “rising block tariffs”. One respondent stated that they were a “useful tool to encourage efficiency”. In the energy sector some respondents felt that rising block tariffs were a crude tool which could adversely affect vulnerable customers including those with large families, and those who may be confined to their homes for long periods of time e.g. the elderly and the sick.

The Department of the Environment felt that there should have been more mention of the “opportunities” referred to in the SNIFFER⁴ report. For example a longer growing season may be an opportunity to be more productive and grow

⁴ A report published jointly by the Environment & Heritage Service, DOE, UK Climate Impacts and Scotland and Northern Ireland Forum for Environmental Research (SNIFFER). SNIFFER UKCC12 2007

less traditional crops.

The OFMDFM Committee requested information on how the new Guidelines issued by the Equality Commission on equality of opportunity and sustainable development in public procurement in NI would be integrated by the Utility Regulator.

The Committee for Regional Development noted that 22 responses were received and that not all respondents answered all questions. They expressed a view that care should be taken in handling the responses to this consultation.

Annex to Sustainability Decision Paper

List of Respondents

NIE Energy
NIE PLC
NI Water
Water UK
Consumer Council NI
Disability Action
Energia-Viridian Power and Energy
ESB
EST
Northern Ireland Environment Link
Northern Wind Power
Ulster Farmers Union
World Wild Life Fund
Sustainable Development
Commission NI
Phoenix Natural Gas
Firmus Energy
Department of the Environment
Northern Ireland Energy Agency
Limavady Borough Council
Department for Regional
Development
Action Renewables
Friends of the Earth

Following the initial consultation, a synopsis of responses was sent to the relevant Assembly Committees the following Committees then responded:

The Committee for Enterprise Trade and Investment

The Committee for the Office of the First Minister and Deputy First Minister

The Committee for Regional Development

The Committee for the Environment

Decision Paper 3: Development of our 5 year Corporate Strategy – Consultation & Way Forward

This Decision Paper contains 4 sections:

1. Key issues raised in the consultation and our views on next steps
2. Background to the consultation and policy context
3. What the consultation said
4. Summary of issues raised in responses to the Consultation

The Corporate Strategy draft included in Part One of this document makes clear the importance we wish to give to the development of a strategy to set out the themes and priorities underpinning our draft Forward Work Programme. As we noted in Part One of this document, we are aware of our role to the future of Northern Ireland and the need to have a clear and deliverable set of objectives - the energy and water sectors are vital to the economy, environment and community. However, we recognize also the need to take a longer view of developments and set our direction of travel in terms of strategic priorities and likely work areas across the various parts of NIAUR.

For the above reasons, in June of this year we consulted on key issues that we should consider as we moved to develop our Corporate Strategy thinking.

1) Key issues raised in the consultation and our views on next steps

We have reviewed the comments made by respondents in parallel to developing this consultation on our draft Corporate Strategy and Forward Work Programme. In relation to the main areas raised in our June consultation and the implications of our discussion and respondents' views for our strategy development and priorities, the following section sets out our current thinking in three broad areas: our **challenges and opportunities** that should be reflected in our strategy; the **context** of our work; and **additional issues relative prioritisation**. Clearly, the fuller discussion in Parts One and Two of this paper also reflect the outcomes of our thinking and consultations in these areas – though we give some specific examples below to evidence this.

Challenges and opportunities

Many respondents concurred with the challenges we outlined in our June consultation. Several of the challenges were particularly noted and reaffirmed as important, for example: fuel poverty; sustainability; and making significantly enhanced levels of renewable generation a real possibility and dealing with the operational and network consequences of that.

In relation to opportunities, again many respondents concurred with our thoughts. However several additional opportunities were noted by respondents: main ones being additional opportunities related to coordination and cooperation with other key Government departments, effective communications with other stakeholders and of a collaborative regulatory approach (notably with CER) to learn from the experiences of others and how these might be tailored for NI

Other Opportunities noted included those arising from predictability and stability in the regulatory process; the possibility of influence the NI Assembly on new legislation; and the environmental opportunities of the roll out of natural gas.

Utility Regulator views: We would agree with many of the comments made by respondents in relation to the challenges and opportunities we face.

We consider that the main challenges and opportunities have been broadly reflected and crystallized into strategy development and through into priorities for action in our Draft Corporate Strategy and Draft FWP. Some of the actions included in our proposed Action priorities in Part Two of this document particularly reflect those views collected after the consultation process.

In terms of respondents' views on the importance of fuel poverty, we will finalise and implement a Social Action Plan and contribute to wider policy development in relation to fuel poverty through involvement in fuel poverty advisory group and the interdepartmental group on fuel poverty. As a reflect of the environmental sustainability aspects and the desire of promoting electricity from renewable sources, we intend to review progress on sustainability issues and we will work with stakeholders to ensure that enhanced renewable generation can be efficiently accommodated in network investment, planning and operations.

We will keep working on strengthening our bonds with other key governmental departments, mainly with DETI (on legislation requirements for GSS, creation of natural gas storage licence conditions, etc.) and DRD (informing the development of ministerial social and environmental guidance and defining the programme for NI Water to formally submit a water resource management Plan). Also, we will pursue our collaborative regulatory approach already built with CER, for example in discussing the harmonisation of GTUoS (Generator Transmission Use of System) and loss adjustment factors and working on the development of a coherent set of arrangements covering Smart Grids, Demand Side

Management/Smart Metering, Aggregation of Generation and Demand Reduction and Energy Efficiency.

As a way to improve communications with stakeholders, we will produce and deliver a Communications Plan, covering crisis communications, stakeholder's engagement and further enhancement of online communications.

We consider that the draft Corporate Strategy above evidences our desire for open and transparent regulatory practice that is delivered within the tramlines of best regulatory practice. We concur with the need for openness and communication and the need to engage with our stakeholders if optimal outcomes are to be achieved. We have deliberately built this into our Strategy, and will build it into our actual work on the ground going forward.

Context to our work

The context thinking in our June consultation was by and large accepted and agreed by the significant majority of respondents. Several contextual issues were reinforced by respondents, notably: the importance of harmonisation of transmission and distribution business processes in the all-island energy context; the harmonisation between NIE and ESB systems; and the need for a joined-up approach from Government to the development of the renewable sector to meet renewable generation targets.

In the water sector, respondents noted the importance of long term investment planning – especially in this sector with long-lived assets – the risk management for a publicly-owned utility and to ensure that decision making on the environmental program is productively addressed in the coming years.

Utility Regulator views: We are content that we have broadly scoped out a fairly full set of contextual factors in our strategy development. We believe that these have been useful in setting the strategic thinking further discussed and detailed in our draft Corporate Strategy.

Our FWP reflects those actions that have been considered as strategic priorities. Harmonisation, as one of the seven strategic themes, has a special importance in conducting our work in the next few years. In particular, we have defined actions to commence the production of long-term arrangements for security of supply on an all-island basis in conjunction with DETI, DCENR and CER. In addition, we will explore with CER the feasibility of alignment of Trading Settlement Code and tariff years.

Investment requirements in the water sector will be considered as part of the Quarterly Capital Investment Monitoring. We will develop several price control projects in different aspects, such as price control for mutualised entities, control value for money, customer views, etc. To meet environmental criteria in this

sector, we will inform the development of ministerial social and environmental guidance and ensure that NI Water's PC10 Business Plan reflects the ministerial guidance.

Additional Wholesale. Network or Retail issues to be considered and consideration of relative prioritisation.

Our June consultation set out at length the issues we felt should form our thinking as we moved to develop strategy direction and priorities. Inevitably, responses were mixed in that many agreed in part with the issues we identified, and many made other comments and suggestions for key issues – often re-emphasising points already made.

In relation to “wholesale”, points raised included issues such as the necessity of improvements under SEM, particularly strengthening its governance and enhancing the SEM market monitoring processes. In gas, solving the lack of storage facilities and the possibility of delivering a Storage service on all-island basis (as part of the CAG project) were noted. Other main wholesale issues raised included: the issue of the legacy Power Purchase Agreements; consideration of the sharing of costs for a cluster of wind farms; the need to examine ways to widen the fuel mix in NI.

Additional “network” issues mainly related to the following points. Respondents commented on the merits of the “mutualisation” model and sought future work here - with an increasing accumulation of strategic energy assets within the relatively unproven mutualisation model. Many respondents made points in and around the issue of creating an effective structure for growth in renewable generation. In terms of the possibility of further metering develop, we were urged to ensure that benefits of smart metering are proven before any substantial investment is undertaken, possibly by implementing pilot programs. Other issues raised by respondents were: the need for effective network planning (particularly in the all-island grid study), the need to secure new generation connections and the re-assessment of future gas extensions.

In terms of “retail” additional issues, most respondents have referred to their responses to the “*Consultation on Electricity and Gas Retail Market Competition in Northern Ireland*”, previously launched by the Utility Regulator. See the Decision paper on this at Attachment One for a full review of the issues and proposals.

Utility Regulator views:- We agree with the majority of comments made by respondents and have attempted to reflect these views in our strategy thinking within our Draft Corporate Strategy and also in our Sectoral priorities and resulting actions set out in our FWP. As some examples, we will engage with

Government and stakeholders to examine the feasibility and options to accelerate the roll-out of gas, both in existing and new areas, and consider further extension of the gas transmission network that could bring gas to new parts of Northern Ireland. Progressing with the CAG workstreams, we will implement the Project Plan, consider legislative requirements, begin drafting of new codes, licences, contracts where necessary, etc. We will consider the need for trials of smart meters and further thinking of smart network opportunities in the future.

We intend to devote some future resource to establishing best-practice price control principles in a cross-utility manner. The resources focused on this can in future move to understand more on the implications for customers from different forms of financing and ownership of regulated assets and potential policy issues and options flowing from this.

Clearly there may not always be total alignment of views on *relative* importance of issues and their resulting prioritisation. Our draft Strategy and FWP try to set out clearly our priorities and their rationale. Thus within Part One and Part Two of this current consultation document we have set out our the results of our thinking on issues and priorities for further consultation and would very much welcome additional views if stakeholders consider we have made errors in prioritisation or left out important issues or decisions.

2) Background and policy context

In June 2008 the Utility Regulator published a consultation paper on key strategic issues, entitled “*Development of our 5 year Corporate Strategy, Consultation on Key Issues*”. The purpose of this consultation document was to engage with our stakeholders to consult on the issues that are relevant to the building up of a first formal NIAUR 5 year Corporate Strategy.

The consultation paper included an assessment of our priorities for approaching the present energy and water regulatory challenges, and also an examination of our opportunities and strategic priorities in a complex and rapidly moving business context. We noted that issues such as: high and volatile wholesale energy prices; the search for an environment more conducive to competition in energy retail markets; the new regulated water industry in NI; the “internationalisation” of regulation – in terms of EU legislation, cross-border trading and international environmental commitments – and the increasing importance of social and environmental issues, were combining to set the regulatory background the Utility Regulator faces.

Although there is a statutory duty compelling the Utility Regulator to consult on and publish a forward work programme (FWP) before the commencement of

each financial year, we have no legal obligation to develop a formal Corporate Strategy paper. However we viewed it as important to consult widely as we developed our strategy thinking and to gain transparency in the strategic framework of our goals.

3) What the consultation said

The consultation paper included 6 chapters. The following is an overview of the paper.

Chapters 1 and 2 set out the current background to the Utility Regulator and noted that we have been undergoing significant changes in our internal structure, in part as a consequence of the new imposed obligations relating to water and sewerage regulation. The Utility Regulator's background is gradually getting more complex and dynamic due to continuous changes in those aspects affecting the regulatory environment – legal, financial, technical and economic factors. This chapter establishes as well the purpose of the consultation document, the timescale for its future development and the principal statutory objectives and functions. Also, it gives a brief idea of the interaction between our activity and the regulated industries.

Chapter 3 set out the existing challenges and opportunities defined by our background and likely to be faced by the Utility regulator in the coming 5 year period. Both elements contribute to the Utility Regulator's aims and global policy direction. Alongside them, the paper took into account the context factors that will influence the regulatory work in the coming years, and, as a step forward, it showed some initial issues that could influence the regulatory work in the long term.

Chapter 4 took the context themes previously identified and developed potential policy areas we might seek to pursue during the 5 year strategic planning horizon. The chapter was structured along the regulatory approach to the value chain, taking into consideration those issues affecting: wholesale markets, networks and retail aspects of the regulated sectors.

Briefly, main aspects of the wholesale market considered were:

Security of supply. In energy, security of supply issues and the rise in wholesale fuel prices are to the fore and will require consideration during the 5 year horizon. We understand that a number of players are interested in the opportunities for increasing their generation capability and taking advantage of the SEM arrangements. A reconsideration of the generation security of supply

issue would present an avenue for these players to offer potential options for new generation capacity that could widen the fuel source mix. In water, security of supply, both in infrastructural and “quality” terms, are fundamentally important and drive a significant proportion of all required regulated expenditure. The main arena for the outworking of these issues in the water context will be the first price control of NIW – and the investment and asset investigation and requirements coming out of that.

High and volatile wholesale fuel costs. In energy, this has been part of the key background context to many of our issues over the last few years – it has contributed directly to large increases in gas prices to customers, and has also fed through into increased electricity prices through higher fuel input costs to generation.

Liquidity of contracts under the Single Energy Market. It has been argued that a liquid market for wholesale electricity products under the new SEM arrangements is proving slow to emerge and a fully functioning hedging market is in its infancy at the moment. Not only is this an issue for the more efficient operation of the wholesale market per se, but it also has ramifications for the rest of the value chain.

Within **networks**, main issues discussed included:

Sustainability in relation to network policy making and decisions which has been fully explained and considered in the Sustainability Consultation.

Metering. We noted that this area may require dedicate resource and policy analysis in the planning horizon. It goes without saying that the issue of water/sewage metering is an important one and generates much debate – the debate has environmental, social, efficiency of use, tariff, cost, etc, aspects to it.

The future direction of “**all-island**” **energy work (network issues)**. Both our electricity and gas Operational teams are currently devoting significant time to energy issues in an all-island context. We indicated that during the planning horizon, we will continue to move forward with this work programme where it can be shown that the cost/benefit balance justifies it.

Energy network extension issues. Given the benefits that may be obtained from a further roll-out of natural gas in NI, we considered that a potential priority may be a new re-assessment of the benefits and options to accelerate further development of the Northern Ireland gas industry

In relation to the **retail** aspects of the sectors, the main issues raised in the document related to developing energy retail competition ideas and issues around fuel poverty.

Chapter 5 of the June consultation established how to ensure deliverability of those strategic priorities already identified and structured, and Chapter 6 set out

the specific questions raised from the consultation.

In addition, the consultation paper contained two annexes. The first showed the statutory duties of the Utility Regulator, based on the Energy Order 2003 – in electricity and gas – and in the Water and Sewerage Services Order 2006. The second reflected the main work areas within the three regulated sectors, divided into four pieces – water and sewerage, electricity, gas and a fourth part which contained sustainability and social issues.

4) **Summary of Key issues made in response to the consultation**

The Utility Regulator received 12 responses to the consultation. Full copies of the 11 non confidential responses can be viewed on our website. In the table below are listed the companies who responded.

Companies from the Electricity Sector	Companies from the Gas Sector	Companies from Water sector
<ul style="list-style-type: none"> • NIE Energy (PPB) 	<ul style="list-style-type: none"> • Phoenix Natural Gas Group • Firmus energy 	<ul style="list-style-type: none"> • Water UK
<ul style="list-style-type: none"> • NIE 		
<ul style="list-style-type: none"> • NIE Energy Supply 	Companies from Gas and Elec sectors	Other organizations
<ul style="list-style-type: none"> • ESB 	<ul style="list-style-type: none"> • firmus energy 	<ul style="list-style-type: none"> • CBI
<ul style="list-style-type: none"> • ESB International 		<ul style="list-style-type: none"> • DRD
<ul style="list-style-type: none"> • Viridian 		

The key issues raised are outlined below, under each question asked in the consultation.

Q1: We would welcome views as to whether there are other significant challenges which we ought to have reflected here.

Several respondents commented that the challenges are well covered, but there

are some that should have more importance than others. In particular, it has been highlighted the importance of social issues (particularly fuel poverty), and the sustainable aspects and environmental challenges which we face (through the need to sizeably increase the renewable generation share, especially wind generation). In this sense, DRD has marked the importance of ensuring that NIUR's Strategy fits with wider developments, such as Sustainability Strategy. As well, some responses stressed the need to combine the increase in renewable penetration whilst ensuring a competitive market for investors and the lowest possible price for customers.

Additional challenges, noted by respondents included market power issues, the industry and regulatory interfaces with GB, ensuring that investment in infrastructure and increasing energy demand can continue to be met, to emphasize spiraling energy costs and to provide internationally competitive prices in electricity, gas and water services. As well, some organizational challenges have been pointed out, e.g. the necessity of shorter timeframes in decision making; to have the necessary flexibility around Board processes to allow timely decisions; to develop the appropriate level of delegation from Board to Executive level, and to achieve enhanced internal expertise and become less dependent on external advisors. Also noted was that the strategy should mention the role that NI can play to help the UK in meeting energy policy objectives.

In the water sector, main suggestions included to consider in the strategy document the security of supply issues, related to the supply of drinking water, and to ensure that the price control process results in affordable charges.

Q2: We would welcome views as to whether there are other significant opportunities which we ought to have reflected here.

Several additional opportunities, from those included in the consultation paper, have been mentioned as an answer to this question. One of the most repeated additional opportunities related to the necessity of emphasizing coordination and cooperation with other key Government departments, effective communications with other stakeholders and of keeping the collaborative regulatory approach to learn from the experiences of others and how these might be tailored for NI. Also the need to work jointly with CER in the all-island electricity market, particularly in planning, licensing process and payment incentives for renewable

Opportunities arising from the direct participation at EU level (through CEER) were noted, alongside the importance of regulatory best practice, the addition of predictability and stability in the regulatory process, and the possibility of influence the NI Assembly on new legislation.

One respondent particularly pointed out the environmental opportunities of the roll out of natural gas, NIAUR's duties on gas promotion and the gas sector-

related measures that may be taken by all consumers to mitigate the impact of increasing energy costs.

Q3: We would welcome views as to whether there are additional significant “context” issues which we ought to have reflected in this chapter but have omitted.

All respondents agree that there are no additional context issues, although some of them recognized that some issues are more important than others.

Q4: We would welcome views as to whether there are significant issues within the context issues already identified which we should have noted.

Respondents have answered this question in a mixed way. Several additional issues within the context issues have been raised.

Regarding all-island energy context, the importance of studying the harmonisation of transmission and distribution business processes, the harmonisation between NIE and ESB systems and the effect of the differing payment schemes for renewable generation were all mentioned. As a longer term issue, it has been pointed the question of how the SEM will interface with the larger GB market and, related to this, how in the context of more interconnection will efficient utilization of interconnection and efficient inter-market trading be assured.

A joined-up approach from Government will be crucial to the development of the renewable sector to meet renewable generation targets.

In the water sector, respondents noted the importance of long term investment planning – especially in this sector with long-lived assets – the risk management for a publicly-owned utility and to ensure that decision making on the environmental program is productively addressed in the coming years. In addition, we were asked to be open to opportunities for simplification in the price control process.

Q5: We would welcome views as to whether there are other significant “wholesale” issues which we ought to have reflected here.

From the wholesale perspective, points raised included issues such as the necessity of improvements under SEM, particularly strengthening its governance via an effective Appeals mechanism and enhancing the SEM market monitoring processes.

From the gas sector, it has been stressed that solving the lack of storage facilities, would help to alleviate exposure to short-term fluctuations in wholesale energy markets; and the possibility of delivering an Inventory Storage Service on all-island basis (as part of the CAG project).

Other wholesale issues raised were: the recommendation of how significant was the issue of the legacy Power Purchase Agreements; to refer to the need to examine the role of Land Bank and the customer benefits that it may provide; consideration of the sharing of costs for a cluster of wind farms; to need to examine ways to widen the fuel mix in NI.

Q6: We would welcome views as to whether there are other significant “network” issues which we ought to have reflected here.

Additional network issues mainly related to the following points.

Respondents commented on the “mutualisation” model. They felt that with an increasing accumulation of strategic energy assets within the relatively unproven mutualisation model, the potential for energy industry failure is a serious issue. As well, it should be considered whether mutualisation works against its longer term interests for consumers and could act as a barrier to efficient grid development.

Regarding renewable development, it was queried that it might be necessary to give renewable generators a preferred status in relation to gaining access to the electricity grid and to encourage coordination between the Government departments in order to facilitate transmission network development to accommodate the penetration of renewable.

In terms of the possibility of further metering develop, we were urged to ensure that benefits of smart metering are proven before any substantial investment is undertaken, possibly by implementing pilot programs in gas, electricity and water markets.

Other issues raised by respondents were: the debate if the Regulator should have a role in planning – understood as a power to intervene if planning permission is not secured – to help deliver energy-related investments (e.g the underground versus overhead construction), the new N-S Interconnector should have more pre-eminence in the all-island energy work; the need for effective network planning (particularly in the all-island grid study), the need to secure new generation connections and the re-assessment of future gas extensions.

Q7: We would welcome views as to whether there are other significant “retail” issues which we ought to have reflected here.

In terms of retail additional issues, most respondents have referred to their responses to the “*Consultation on Electricity and Gas Retail Market Competition in Northern Ireland*”, previously launched by the NIAUR (see the Decision Paper on this at Attachment One)

Q8: The Utility Regulator has limited resources, both as a whole and also within each operational Directorate, to deliver priorities in the coming 5 year period. We would welcome early views from respondents on the urgency, importance and thus prioritisation of strategic goals and work priorities.

In answering previous questions, respondents highlighted what they think are the priorities for the Utility Regulator’s job in the next few years. In the paragraphs below, a brief of the responses to question 8, alongside a summary of those points raised in the responses to other questions, related to prioritisation, are provided.

In the all-island market, respondents discussed at various points a long list of potential areas we should seek to deliver on. These included: integration of transmission and distribution business processes, harmonisation of the planning and licensing process for generators, alignment of incentive payments for renewable (ROCs versus feed-in tariffs), to incentivise fast-response back-up generation for wind, to develop a pro-active approach to network development, to investigate the effect of energy efficiency supplier obligations on entry into the electricity retail market, to create and implement a strategic network plan, to work more closely with network operators to connect new capacity (especially renewable), to deliver effective competition, to achieve more efficient all-island gas network tariffs through CAG, to increase regulatory and market transparency and to undertake a cost benefit analysis of the opportunities before any decisions are taken.

Several respondents remarked on the importance of Gas network extension and of the re-assessment of future gas networks.

In the water side, we were urged to continue to develop stakeholder engagement, to consider the Utility Regulator’s role in influencing future legislation, domestic water charging and the implications of establishing a charging relationship with customers, affordability and financial sustainability issues.

Price controls were mentioned as a priority area, but in the context that that their elaboration should not distract from other important tasks which companies have to deliver on. Also, it was noted that it is important to ensure that potential risks

within price control are addressed.

Other topics that respondents raised

Finally, respondents have raised a number of issues not specifically connected to the questions launched in the consultation, but equally important. Those issues are mainly related to the NIAUR's role in developing policy and the coordination – cooperation with other Government departments or organizations.

In this sense, it has been mentioned that the definition of strategic goals should await the outcome of the Executive's decisions on the future of water and sewerage, decisions covering energy policy should continue to be led by Government (with appropriate guidance from the Utility Regulator), fuel poverty policies primarily need to flow from Government and the necessity to define how the Utility Regulator will work with DETI and Government in developing and implementing its strategy.

It is appreciated that some areas of the strategy are dependant on progress elsewhere, notably at the SEM Committee and some respondents would welcome a consolidation of the views raised in these previous consultations into the Corporate Strategy.