APPROACH TO THE 2014 POWER NI SUPPLY PRICE CONTROL

Consultation paper

08 February 2013

ABOUT THE UTILITY REGULATOR

Who we are

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

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

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

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

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Background

In Electricity, the primary statutory duty of the Utility Regulator (UR) is "*to protect the interests of consumers of electricity supplied by authorised suppliers, wherever appropriate by promoting effective competition*"[1].

Where competition is not sufficiently developed or effective, the UR protects customers by regulation and this applies to the relevant areas of the electricity supply market as much as to other sectors of the energy industry. The UR proposals for the 2014 Power NI (formerly NIE Supply and then NIE Energy Supply) price control must be undertaken against this statutory duty backdrop. We consulted extensively and issued decisions on these matters during 2011 and early 2012.[2]

Although supply price controls have been removed in the regulated energy sector in Great Britain (GB) and recently in the Republic of Ireland (RoI), this was in the context of significantly more mature markets and competition levels, as well as much greater market size and potential for truly effective competition to protect customers. This has not been the case in the NI regulated energy supply markets, as well as other parts of the European Union (EU). Indeed, the UR notes that regulated end-user prices continue to operate in more than half of the Member States of the EU. However, we do accept that the issue of the "customer coverage" of the control needs to be looked at – we discuss that particular issue later in this paper and seek respondents' views.

Up to now, due to Power NI's dominant position, all Domestic customers of Power NI and their Non-Domestic industrial and commercial (I&C) customers using up to 150MWh per annum are subject to regulated tariff control, as set out in Power NI's Supply Licence. I&C customers using above this threshold, and customers of other

[1] Article 12 of *the Energy (Northern Ireland) Order 2003*.

[2] The Utility Regulator, *Regulatory Approach to Energy Supply Competition in Northern Ireland – a Utility Regulator Decision Paper,* published 11th May 2012. A copy of this document is available at http://www.uregni.gov.uk/publications/regulatory_approach_to_energy_supply_competition_in_ni_decision_paper.

electricity suppliers in Northern Ireland, are not covered by the UR's supply price control regime.

Originally, Power NI was the subject of a supply price control which ran from April 2000 to March 2005.This has been followed by a number of shorter term controls, with the existing supply price control running from April 2012 to March 2014.

About this document

The purpose of this document is to consult on the Approach the UR should take in relation to setting the next price control for Power NI. The next price control period is due to commence in April 2014. We intend to undertake the work to develop the new control during the remainder of 2013 and early 2014 in an entirely transparent and structured manner. The UR has already released an information note[3] setting out the planned timelines and various phases of the project leading up to April 2014.

This current UR consultation builds on that transparent approach, in that it sets out for consultation: the main issues likely to affect the control; our initial thoughts on how those issues may be addressed or looked at further; and welcomes stakeholder feedback on various questions and issues.

The UR is seeking feedback from interested stakeholders at this early stage, so that this may help to shape our consultation planned for the end of June. That future paper will include details of respondents' feedback to this consultation and our "minded to" proposals in relation to Power NI operating costs, profit margin, scope of the control and duration. Again, this will be fully consulted upon prior to any final decisions are made in the late autumn.

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[3] The Utility Regulator, *Power NI Price Control Review 2014 – information paper,* published 9th November 2012. A copy of this paper is available at http://www.uregni.gov.uk/publications/power_ni_price_control_information_paper.

We consider this approach is consistent with the principles of better regulation[4] which the UR continues to apply: transparent, consistent, proportionate, accountable, and targeted.

This Approach document sets out the main areas the UR has identified for consultation. Overall, and in relation to each of the issues identified, the UR welcomes feedback on whether, broadly speaking, the approach to the 2014 price control should remain the same as in previous years, or how it could be altered or improved, and the reasons why.

- Section 1 outlines the **structure and form** of previous Power NI price controls;
- Section 2 provides detail of what sectors of the supply market have been within the **scope of the control** previously and includes details of Power NI's request to amend the regulated threshold;
- Section 3 highlights the **duration** of previous price controls;
- Section 4 sets out a number of different ways the UR can make an **assessment of operating expenditure** (opex);
- Section 5 discusses the **setting of the allowed margin** for the price controlled part of Power NI's business (the regulated business);
- Section 6 considers whether Power NI, as a non asset intensive supply business, should be subject to a traditional **financeability** test;
- Section 7 asks the **key consultation questions** on which we are seeking feedback from interested stakeholders; and
- Section 8 reviews the **timeframe and how we intend to engage** with stakeholders throughout the price control process.

[4] The Department for Business Innovation & Skills, *Principles for Economic Regulation*, published April 2011. A copy of this paper is available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31623/11-795-principles-for-economic-regulation.pdf

Equality considerations

As a public authority, the UR has a number of obligations arising from Section 75 of the Northern Ireland Act 1998. These obligations concern the promotion of equality of opportunity between:

i. persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
ii. men and women generally;
iii. persons with disability and persons without; and
iv. persons with dependants and persons without.

The UR must also have regard to the promotion of good relations between persons of different religious belief, political opinion or racial groups.

In the development of its policies the UR also has a statutory duty to have due regard to the needs of vulnerable customers i.e. individuals who are disabled or chronically sick, individuals of pensionable age, individuals with low incomes and individuals residing in rural areas. Some of the above equality categories will therefore overlap with these vulnerable groupings.

In order to assist with equality screening of the proposals contained within this consultation paper, the UR requests that respondents provide any information or evidence in relation to the needs, experiences, issues and priorities for different groups which they feel is relevant to the implementation of any of the proposals. Furthermore, the UR welcomes any comments which respondents might have in relation to the overall equality impact of the proposals.

Q1.	***Do respondents agree that where this consultation has an impact on the groups listed, those impacts are likely to be positive in relation to equality of opportunity for energy consumers?***
Q2.	***Do respondents consider that the approach needs to be refined in any way to meet the equality provisions? If so, why and how? Please provide supporting information and evidence.***

RESPONDING TO THIS CONSULTATION

Representations regarding this paper should be forwarded to reach the UR on or before the Closing Date of 4.00pm on 22 March 2013 to:

Robert Stewart
Utility Regulator
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14 Queen Street
Belfast
BT1 6ED
Tel: 02890 316654
Email: robert.stewart@uregni.gov.uk

Our preference is for responses to be submitted in an electronic format.

The UR will duly consider all representations received on or before the Closing Date. Please note the UR is unable to consider any representations received after this date.

Your response to this consultation may be made public by the UR. If you do not wish your response or name made public, please state this clearly by marking the response as confidential. Any confidentiality disclaimer that is automatically produced by an organisation's IT system or is included as a general statement in your fax or coversheet 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 the 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 Authority.

This document is available in accessible formats. Please contact Robert Stewart on 02890 316654 or robert.stewart@uregni.gov.uk to request this.

BACKGROUND TO THE SUPPLY PRICE CONTROL

The existence of the Power NI supply price control is inherently linked to the historic dominant position of Power NI in certain segments of the market (either individually as is the case in the Domestic sector, or when taken with its sister company affiliate Energia) and the primary statutory duty of the UR to protect consumers.

Established EU law and Office for Fair Trading (OFT) guidance highlight there is a rebuttable presumption of dominance in a market where an entity, when taken with affiliates, has a market share of 50% or more although dominance may exist at a much lower market share depending on the characteristics of the market in question.[5] As a general rule of thumb, a company is unlikely to be dominant if it has a market share of less than 40% but again this is dependent on the relevant market characteristics. However, market share above or below 40% does not necessarily mean that an entity is, or is not, dominant as there may be robust evidence to the contrary.

The UR gives due consideration to market shares along with other factors when assessing whether Power NI is in a dominant position. These include amongst other things: barriers to entry; number of competing suppliers; market share trends; relative supplier market shares; customer switching rates; customer experiences of competition within the market; substitutability of the product and; market concentration.

The retention of supply price controls for dominant incumbent suppliers is a declared UR policy stance, fully consulted upon and decided during 2011 and early 2012. That policy stance remains under review in light of emerging market information and new retail market monitoring work projects emerging in the UR.

[5] OFT 415, *Assessment of market power – understanding competition law*. This document is available at http://www.oft.gov.uk/shared_oft/business_leaflets/ca98_guidelines/oft415.pdf

The two high level regulatory goals the UR seeks to achieve (for the protection of consumers) through the price control regulation of Power NI in the Domestic and Non-Domestic small business sectors are:

- Prevent the potential for abuse of market power – An important goal of the UR price control regulation is to ensure that prices are appropriate and fair; that is Power NI do not make excessive profits, and prices reflect underlying costs of supply.
- Achieve economic efficiency – The regulatory price control helps to improve economic efficiency by setting a cap on operating cost allowances.

The market background and context have changed since the original price controls were set on Power NI when they were a monopoly supplier. Power NI is now subjected to competitive pressure in both the Domestic and Non-Domestic sectors of the market.

However, even with the introduction of competition, Power NI still retains a dominant position with significant market power in certain market segments and therefore has the potential ability to adversely influence market conditions, thereby prohibiting the emergence of effective competition. For instance, competition in the Domestic market is still relatively immature with a small number of competitors.

Where retailers have significant market power and are potentially capable of expanding their market power, limit competition or act against consumer interests, the actual or potential problems are usually related to pricing (eg excessive prices, predatory prices) and quality (eg discrimination by service quality or deterioration of service quality). A retailer with significant market power has lower incentives to improve its performance which may result in inefficiencies. The price control helps prevent this from happening by limiting the operating cost allowance to an efficient level. Furthermore retailers with significant market power may potentially have the ability to fix prices well above costs with the aim of maximising their profits. Again a price control prevents this by capping profits.

Finally, dominant Electricity supply companies have significant market power and have the potential to price discriminate between its customers – both Domestic and Non-Domestic – and inhibit competition in those customer sectors where it is facing competition. In order to eliminate any potential for undue discrimination and to protect consumers interests and ensure other retailers can enter the market against a dominant player, Power NI are required to offer the regulated tariff to all customers in the sectors it is deemed to be dominant in. In this way regulation ensures that a dominant supplier cannot inhibit competition or vary prices unduly between customers.

In the longer term, the UR must continue to consider and analyse the effectiveness of competition in the Retail market with regards to consumer protection, especially if it appears to be that they are not being protected if a duopoly or oligopoly emerges. This flows back to our basic statutory duty, the protection of consumers by good regulation, and especially in markets where we deem that competition is ineffective.

The current situation is that all customers in the Non-Domestic market that consume more than 150MWh per year do not have the option of taking the regulated tariff from Power NI. This is because the price control on Power NI is only applicable to the market below that threshold. Above this threshold, the market has up until now been assumed to be competitive enough that competition amongst suppliers will be sufficient enough to constrain their behaviour and protect customers from monopoly/oligopoly type abuse e.g. excessive pricing, poor service.

Whilst not directly connected to this consultation on the Power NI price control, the UR wishes to take this opportunity to inform consultees that it will be undertaking a formal review of the electricity supply market as a whole and also review separately by the market segments which are regulated and those which are not. We envisage at this point that this review will begin in early 2014. The review will assess whether there is an effectively competitive market and if consumers are receiving the appropriate level of protection. If the analysis finds they are not, the UR will take remedial action. This may take the form of additional regulatory requirements being consistently applied across all suppliers or a different type of regulatory framework that would apply to the whole market. We may seek the help and advice of the OFT as part of that review.   This however is a longer term piece of work which is outside the scope of this consultation document.

1. STRUCTURE AND FORM

1.1. The details of the operation of Power NI's supply price control are set out in its Licence. At present, Power NI's maximum allowed unit price of electricity (**M_t**) for customers subject to price control is made up of a number of components:

$$M_t = G_t + U_t + S_t + K_t + (J_t - D_t) + E_t$$

In any given year t,

1.2. **G_t** refers to the cost of the "wholesale" electricity which Power NI purchases and so long as Power NI complies with its Economic Purchasing Obligation, this will be passed directly through to customers.

1.3. **U_t** covers the costs of using the electricity network; these costs are regulated for all Suppliers through the NIE Transmission and Distribution (T&D) price control.

1.4. **K_t** is a correction facility whereby under or over-recoveries in the previous year can be collected by the business (under-recovery) or given back to consumers (over-recovery).

1.5. **J_t** encompasses costs associated with buy-out from the Northern Ireland Renewables Obligation with the **D_t** term representing any savings on the buy-out Power NI achieves.

1.6. **E_t** is associated with costs which are uncontrollable and are passed through to customers on a 100% basis. These costs include licence fees; IT projects required in order to put in place the systems and processes to open Domestic markets and allow customers to switch supplier (such as NI2007 and stages of the Enduring Solution project); and past pensions deficit. The UR considers that this component must be reviewed as part of this price control as the Enduring Solution project is complete.

1.7. Therefore, most of Power NI's costs are straight pass-through costs which are subject to other price controls or regulations; and thus this price control review deals with the **S_t** term of the tariff formula, which is in effect Power NI's own operating costs and margin allowed by the regulator. This amount must be sufficient to finance an efficient business and should comprise the following elements:

- Operating costs
- Capital expenditure / depreciation

- Return on assets / profit margin

1.8. The Allowed Revenue of S_t is currently collected on a ratio of 67% fixed amount plus a variable charge on a per customer basis of 33%. We will discuss this metric further in the 'Duration' section of this consultation.

1.9. Operating costs and profit margin are discussed later in this paper.

1.10. Since June 2012, Power NI has had a regulated asset base (RAB) in relation to the Enduring Solution IT system. The original RAB was c.£12million and has a pre-agreed return of 6.59% real and a straight line depreciation period of 5 years. Therefore, the Power NI RAB and return for the Enduring Solution is a pre-determined element of this consultation.

Q3.	***Do respondents feel the existing structure and form remains appropriate for the next price control? If not, please explain what you believe the structure and form should be.***

2. SCOPE AND COVERAGE

2.1. Power NI are subject to price control regulation in the whole of the Domestic market and for customers up to 150MWh per annum consumption (or 100 kVA Maximum Import Capacity (MIC) connection if consumption data is unavailable) in the Non-Domestic market. “Regulated premises” are defined in Annex 2 of the Power NI licence.

2.2. Power NI remains dominant in the Domestic market with a market share of c.80% both by consumption and connection. Market share is deemed to be an important factor in the assessment of dominance but a range of other factors and indicators are used by the UR which are highlighted later in this section. The UR envisages that price control regulation i.e. the setting of regulated tariffs offered by Power NI will continue to apply to the whole Domestic market whilst Power NI remain in a dominant position. However, the UR will continue to monitor the situation as further competition emerges and in light of our statutory duties.

2.3. The Non-Domestic market is less clear. Power NI (when taken with their affiliate company, Energia) has been the dominant supplier in the Non-Domestic market that is still subject to price control and regulated tariffs. However, the market shares have been changing since the last price review and now require further consideration. In assessing market share, the UR will assess the combined share of Power NI and its affiliate Energia. This is normal practice and is endorsed by the OFT. While there may be business separation obligations in the licences of Power NI and Energia, it is recognized that these will only ever be effective to a certain degree. The common ownership and shareholder control of Power NI and Energia is the salient point when thinking about market share and potential dominance.

2.4. In their July 2011 consultation response[6] to the UR’s 2011-13 proposals for the supply price control,[7] Power NI proposed that price control regulation should not apply to two additional groups of customers:

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[6] Power NI, *Power NI’s Response to Consultation Proposals,* dated 17th July 2011. A copy is available at http://www.uregni.gov.uk/publications/power_ni_response_power_ni_price_control.

[7] The Utility Regulator, *NIEES Supply Price Control 2011-2013 consultation paper,* published 20th May 2011. A copy of this paper is available at http://www.uregni.gov.uk/publications/niees_supply_price_control_2011_2013_consultation_paper.

- *Any individual site using more than 50MWh pa*
- *Any group (ie an account with more than one site) consuming more than 50MWh pa*

2.5. In more recent correspondence with the UR, Power NI proposed that the regulated threshold in the Non-Domestic market should be reduced to 70kVA MIC connection, that is any Non-Domestic customer with an MIC of 70kVA or more should not be subject to price control regulation. In a similar fashion to the current proxy of 100kVA for 150MWh the UR views consumption of 100MWh pa as a proxy for an MIC connection of 70kVA.

2.6. The rationale for the proposal of setting the threshold by connection articulated by Power NI was that it is better to base the test on an MIC connection of a site as it is less likely to vary than consumption. They also believed that a change to 70kVA reflected all the possible measurements available to test the market developing and was a more realistic figure in the context of premises with larger demands.

2.7. Finally, in response to the UR's Draft Forward Work Plan Consultation for 2013-2014, Power NI has now stated that the UR should remove price control regulation for the whole Non-Domestic sector.

2.8. The UR intends to consider further the scope of the control coverage as part of the price control project. We have recently commissioned a new data set from NIE that will illustrate supplier market shares by consumption bands and customer numbers for the Non-Domestic market in bands of 10MWh. The UR has requested that NIE verify the accuracy and reliability of this data and that will be done in the near future. The UR views consumption as a more accurate measure of assessing customer size. A customer with lower consumption but a higher MIC than another customer cannot be considered larger due to the historic Use of System tariff that customer pays due to a physical connection size.

2.9. In GB, Ofgem assess a customer's size by the amount they consume (or spend) annually and this is consistent with the UR determining customer size by consumption. Suppliers also view a customer's size based not on their connection but on how much they consume as revenue is derived from units consumed not connection size. It is more appropriate therefore to assess a customer's size by the amount they consume. This is also consistent with the UR treatment in the gas industry where the threshold for price regulation is consumption of 25,000 therms per annum.

2.10. The UR's consultation (to be published in June) will use this new market share by consumption information, in addition to existing data that the UR already uses to monitor, which includes amongst other things:

- Number of suppliers
- Market share trends
- Supplier market shares
- Customer switching rates
- Substitutability of the product
- Customer experiences of the competitive market
- Market concentration (Herfindahl-Hirschman Index)

The UR will set out its 'minded to' decisions for what the price control regulated threshold should be in the June consultation document. These proposals will take account of whether or not Power NI (combined with Energia) is dominant in various sectors of the Non-Domestic market.

2.11. At present, the UR views there to be three sections within the Non-Domestic sector that is still subject to price control regulation: 0-50MWh; 50-100MWh; 100-150MWh pa. These three sections will be discussed and analysed in the June consultation in deciding the scope of the next supply price control. The UR has decided to segregate the current regulated Non-Domestic market like this as the definition of a micro-enterprise is consumption of 55MWh pa and, as noted below, Ofgem are considering increasing this to an assumed level of 100MWh pa for customer protection purposes.

2.12. However, if all or any of these sectors remain within the price regulated market they may require further disaggregation for any future analysis. For example, Non-Domestic customers with comparatively low consumption of 0-10MWh or 0-20MWh per annum may have traits more similar to a Domestic customer than other Non-Domestic customers and therefore require similar protection to Domestic customers.

2.13. Following a probe of energy Retail markets in GB in 2008, Ofgem identified that the smallest businesses struggle to engage in the energy market and introduced new rules to give them better protection in 2009.[8] In GB, statute sets out the threshold for Micro-enterprise[9] and Ofgem are now assessing whether the additional protections afforded to these customers should be extended to Small business customers who consume up to 100MWh.[10]

2.14. The UR will continue to monitor the outcome of Ofgem's consultation closely.

2.15. The UR is also mindful of its duty under Article 12(6) of the Energy Order which states "*in carrying out their respective electricity functions the Department or the Authority shall not discriminate between persons whose activities consist of or include generating, supplying or distributing or transmitting electricity as regards either rights or obligations"*. In effect this means the UR must ensure the price control scope is appropriate and does not impose any obligations regarding price restraint on Power NI that are without objective justification. The objective justification in the past has been dominance and market power.

2.16. The UR also has a principle objective to protect customers and wherever appropriate to do so by promoting "*effective*" competition. To remove price controls too early on an incumbent with market power could well have stifled competition and insufficiently protected customers. The UR needs to decide whether now is the time to remove the price control from Power NI in some parts of the market where the price control still exists. We are however acutely aware that to do so may potentially be detrimental to customers as removing the safety of a regulated tariff could see overall prices increase or other unintended consequences emerge. It is unclear whether the price control places an effective "cap" on the market. It may be more likely that this is the case in the lower bands of the I&C market (and the Domestic market) as a much greater proportion of the

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[8] Ofgem publication dated 30th November 2009 titled *"Helping small businesses get the most out of the energy market – factsheet"*

[9] Section 2(1) of "*The Gas and Electricity Regulated Providers (Redress Scheme) Order 2008"* defines the relevant consumer (micro-enterprise) as a non-domestic customer whose annual consumption is not more than 55MWh; **or** fewer than 10 employees **and** an annual turnover or balance sheet not exceeding €2million. As the UR will only be able to monitor consumption in 10MWh bands, therefore an equivalent of 0-50MWh will be used.

[10] Ofgem consultation dated 26th October 2012 titled *"The Retail Market Review – Updated proposals for business"*

customers are still availing of the regulated tariff. The approximate numbers are shown in table 1 below:

Table 1

Size of annual consumption	Total number of customers	Number of Power NI customers	
0-50 MWh	48,400	26,300	54.3%
50-100 MWh	5,000	1,500	30.0%
100-150 MWh	1,800	500	27.8%

Q4. In the Non-Domestic sector that is currently subject to price control regulation, do respondents agree that it is reasonable to assess Power NI supplier dominance in the 3 sections the UR has detailed: 0-50 MWh; 50-100 MWh and; 100-150 MWh per annum? If not, please explain your rationale.

3. DURATION

3.1. The decision about the duration of the next price control will need to take account of likely developments in competition. If there is a basis for thinking that competition will become increasingly well entrenched, or even if we find it hard to predict with any certainty how the competitive market will develop in the coming years, there may be an argument for setting a relatively short control to ensure that we have an opportunity to revisit Power NI's price control arrangements before too long and in light of the changing evidence.

3.2. Conversely, if the UR can be fairly confident that certain customers are likely to need regulatory protection for the foreseeable future, there will be benefits in terms of incentives for cost efficiency in reverting to a longer price control.

3.3. The last 5 year supply price control ran from April 2000 to March 2005. This has been followed by a number of shorter term controls, the latest of which is a two-year control currently running from April 2012 to March 2014. The series of shorter term controls over the past number of years has been due to the changing environment in terms of retail competition.

3.4. At the last price control review, the UR stated its desire to move away from short-duration controls, but was mindful that there is uncertainty about the rate at which competition will develop and the impact this will have on Power NI's costs.

3.5. Looking elsewhere, the UR typically sets a price control for NIE Transmission & Distribution (and other large utility networks) for a period of 5 years. However, this is a network price control with different characteristics to a retail control. There is generally a significant amount of capital expenditure within any network control and a longer period may be more appropriate given the different economic characteristics of the activities carried out by the business which is inherently a 'natural monopoly'.

3.6. In Gas retail, the UR sets a 5 year control for the dominant supplier Phoenix Supply (which has since been acquired by Airtricity). The UR has the ability to 're-open' the price control after 3 years but is not compelled to do so.

3.7. In GB, The Water Services Regulation Authority (Ofwat) has confirmed their intention to set two types of control – wholesale (networks) and retail.[11] Ofwat

[11] Ofwat's *"Future price limits – statement of principles"* published 15th May 2012

have stated they will set both for a 5 year duration from April 2015. Ofwat have recently consulted on amendments to the various water company licences as they believe that it may be appropriate to set different durations for the different controls. Following an iterative process, the latest proposals from Ofwat have unanimously been accepted by the water companies.

3.8. The question of the duration of the new control from April 2014 will need to be looked at in the coming price control project. Some issues point to a shorter duration (uncertainty, competition), whilst others point to a longer duration (incentives on the regulated company and to reduce the regulatory burden placed on Power NI and UR). The UR's initial thoughts are towards a shorter duration (of perhaps 3 years) due to the uncertainty created by competition but we would welcome respondents' views.

3.9. In addition, the Power NI arrangements already have a mechanism that, as mentioned previously in section 1, dictates that the total S_t Allowed Revenue (aggregate of operating costs and profit margin) is currently collected on a ratio of a 67% fixed amount plus a variable charge on a per customer basis of 33%. This means that 33% of Power NI total allowed revenue will fluctuate with numbers of customers. For example, if Power NI loses 10% of its customers in a year then the following year its total allowed revenue will fall by 10% of 33% or 3.3% overall. Conversely if Power NI gains a further 10% of customers in a year then the following year their total allowed revenue will increase by 10% of 33% or 3.3% overall.

3.10. What this means in practice is that 67% of the S_t Allowed Revenue is set at the control and does not change throughout its duration. The variable portion of 33% will increase or decrease depending on the number of customers that Power NI gain or lose respectively. The benefits of the variable portion are twofold:

- It better reflects the actual costs incurred by Power NI as customer numbers increase or decrease; and
- It acts as an incentive to ensure that Power NI maintain high standards of customer service as there is a financial detriment for each customer that transfers to another energy supply retailer.

3.11. The UR understands this is a mechanism to adjust the Allowed Revenue as customer numbers increase or decrease, thus facilitating price controls of a longer duration if appropriate. However, we would welcome feedback on whether respondents feel the 67:33 fixed:variable apportionment is an appropriate method of reducing the opex and margin allowance in line with customer losses.

Q5.	***How long do respondents feel the next price control should last?***
Q6.	***Do respondents feel the 67:33 fixed:variable apportionment of Power NI's own allowed revenue (operating costs plus margin) is an appropriate method for reducing the opex and margin allowance in line with customer losses?***

4. OPERATING EXPENDITURE (OPEX)

4.1. One of the main work areas during the price control project will be to estimate the efficient level of Power NI's own costs (part of the S_t term in the price control formula). These costs are mainly the operating expenditures that Power NI incurs in providing retail services to customers, including its staff costs, out-sourced billing and customer service costs, corporate overheads and provisions for bad debts.

4.2. The opex allowance within Power NI's current price control was built up from a detailed line-by-line challenge of cost projections that Power NI submitted to the UR during the last periodic review. This remains an option for tackling this element of the coming control review. Ongoing IT opex costs will require a detailed review to assess an efficient level as the systems being run are new.

4.3. However, given that a complete detailed analysis was completed as recently as 2011, an alternative in the 2014 price review to roll forward Power NI's actual/historical expenditure using high-level estimates of the natural rate of change in retail opex.

4.4. To carry out this approach we would:

- roll forward Power NI's opex in a base year (e.g. 2011/12 actual opex or 12/13 latest best estimate), with one-off items removed, for expected inflation, input price increases and productivity growth; and
- ask Power NI to identify foreseeable new opex items and any offsetting de-scoping of opex that would not otherwise be provided for within this baseline.

Further details are given below.

Inflation, input price increases and productivity growth

4.5. The UR has had to produce analysis of inflation, input price increases and productivity growth in a number of its other price control reviews. We are asking our consultants First Economics to apply the methodology that it developed in the recent NI Water PC13 review[12] to an energy retail business. This will involve:

- making specific forecasts of the nominal input price inflation that Power NI is likely to see for the main inputs within its opex mix – ie internal and out-sourced labour costs, postage costs, business IT costs, bad debt, etc;
- deducting a suitable productivity growth assumption, set with reference to the historical rate(s) of productivity growth in comparable sector(s) of the UK economy; and
- deducting forecast RPI-measured inflation.

Additional opex

4.6. It is normal regulatory practice to make separate allowances for any incremental expenditure or any reductions in expenditure that result from changes in the scope and nature of business activities.

4.7. It is proposed that Power NI should be asked to submit claims for additional cost items in its response to the UR's business plan questionnaire. It will also be required to identify any activity which is to be discontinued and where spending will not reoccur. The UR wishes to make it clear from the outset that additional opex allowances will only be given if:

- any net increase in costs is due to exogenous changes in business obligations and are unavoidable; and
- Power NI is able to provide compelling evidence for the amounts claimed.

4.8. This means that the burden of proof is squarely on the company. If Power NI is not able to justify its claims to the UR's satisfaction, there will be no allowance for additional opex.

[12] The Utility Regulator, *Water and Sewerage Price Control 2013-2015 Northern Ireland Water. Annex D - First Economics: The Rate of Frontier Shift Affecting Water Industry Costs,* published 14th December 2012. A copy of this document is available at http://www.uregni.gov.uk/publications/pc13_final_determination_and_technical_annexes

Cost allocation and adjustments for loss of market share

4.9. As a final step in the opex analysis, it is necessary to deal with two related tasks:

- allocating Power NI's total opex between price controlled and non-price controlled customers; and
- adjusting price controlled opex for future customer loss.

4.10. The UR has methodologies for both pieces of work from the last review. We will be asking Power NI to specify in its business plan whether there is new information which might mean that it is necessary to make any adjustments to these cost allocation and cost adjustment rules. We will also be asking Power NI to allocate certain costs – eg staff costs – at a lower level of aggregation than has been the case in the past. Furthermore we will review the apportionments of certain cost lines between price-controlled and non price controlled customers.

Q7. Do respondents believe the approach outlined to assessing opex is appropriate at this price review following the 'line by line' approach at the last review? If not, please explain what approach you believe the UR should take to assessing opex and the reasons why.

5. MARGIN

5.1. The other input to the S_t term in Power NI's current price control is an allowance for profit. The margin within the 2012-14 control was set equal to 1.7% of Power NI's forecast turnover, consistent with the UR approach in previous reviews.

5.2. The calibration of regulated returns as a "% of turnover" has been the accepted approach across most previous retail price control reviews in GB, RoI and NI. It has been used and accepted by Regulators and regulated supply companies (electricity and gas) in NI energy sector for many years. While network price controls have tended to provide a WACC-based return on assets/historical investment, this conventional approach is more difficult to apply to price controls for businesses with relatively small physical asset bases. As a consequence, regulators setting price controls for retail businesses have placed greater reliance on historical precedent and benchmarking to the margins earned by comparable businesses.

5.3. In this review, the UR proposes to look at the appropriate level of Power NI's allowed margin afresh, paying particular attention to the risks that the business faces and the fair and reasonable reward that investors should expect for bearing that risk. There are a number of ways of approaching this task and the UR expects that it will draw on a range of evidence before reaching a decision about the appropriate level of profit to include in the Power NI control. As with the other aspects of the new Power NI price control, taking on board the issues identified below and the views of respondents to this current consultation, the UR will consult further on the 'minded to' decisions on this matter at the end of June this year. We set out at a relatively high level some initial thoughts below – and seek feedback from respondents.

METHODS FOR ASSESSING NET MARGIN

Regulatory precedent

5.4. One way to review Power NI's margin is to survey regulatory precedent. Price controls set by Offer, Ofgem, the Monopolies and Mergers Commission (MMC), the UR and the Commission for Energy Regulation have historically provided for margins of between 0.5% and 1.7% of a retail business's turnover. A summary of previous decisions is given in table 2.

Table 2

Regulator	Margin as % of turnover	Comments
Offer, 1994	1.0%	The allowance was for pre-1998 price controls for monopoly businesses with pass-through arrangements for upstream purchase costs
MMC, 1995	0.5%	This was the MMC's conclusion in a 1995 inquiry into Scottish Hydro-Electric's price control (in effect, an appeal against the previous entry in this table)
Ofgem, 1998	1.5%	The allowance was for post-1998 price controls for businesses in the liberalised domestic retail market
Commission for Energy Regulation	1.3%	The Commission has allowed the same margin throughout the deregulation of the Irish retail market
Utility Regulator	1.5% to 1.7%	The stated allowance has been applied to monopoly and dominant suppliers with pass-through arrangements for upstream purchase costs

5.5. It would seem reasonable that Power NI, under its post-2014 price control arrangements, should be positioned appropriately relative to these earlier price control decisions, having regard to the risks that the business faces and the risks that other regulated supply businesses have borne under their price control arrangements.

Margins earned in other sectors

5.6. It is also possible to benchmark Power NI's profit entitlement to the margins earned by energy suppliers in competitive markets and to the margins earned by other retail businesses. In carrying out this benchmarking, it is important to bear in mind that the markets may be quite different in terms of size and maturity of competition, and that firms may not have a dominant position in their market like Power NI, or benefit from the regulatory protections and consequent allocation of risk away from shareholders and on to customers that are apparent in Power NI's price control formula – for example, in the arrangements that permit Power NI to pass efficient wholesale purchase costs through to customers, and regulated tariff reviews as necessary to maintain regulated prices linked to underlying cost movements.

5.7. With this important caveat in mind, we show data from Ofgem's weekly retail market monitoring reports for the competitive GB electricity and gas supply markets below. The analysis suggests that retailers are currently pricing in profit margins of 4% to 6% of turnover. This is an increase on the margins that retailers have earned in previous years, which sat nearer 2% to 3% of turnover prior to 2008.

5.8. The following charts and tables give the supporting data for these calculations.

Figure 1

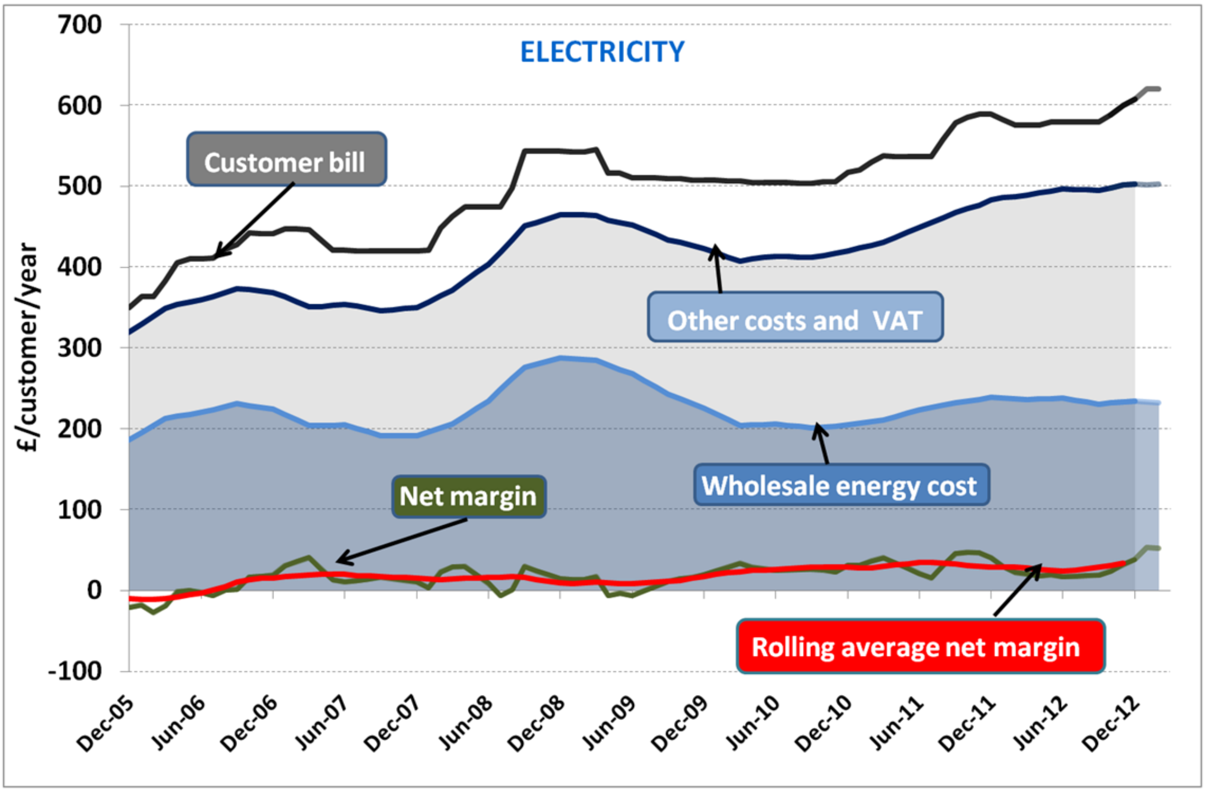


Table 3

	December 2008	**December 2009**	**December 2010**	**December 2011**	**December 2012**
Customer bill (£)	545	505	515	590	610
Rolling net margin (£)	10	20	30	30	35
Margin as % of turnover	1.8%	4.0%	5.8%	5.1%	5.7%

Figure 2

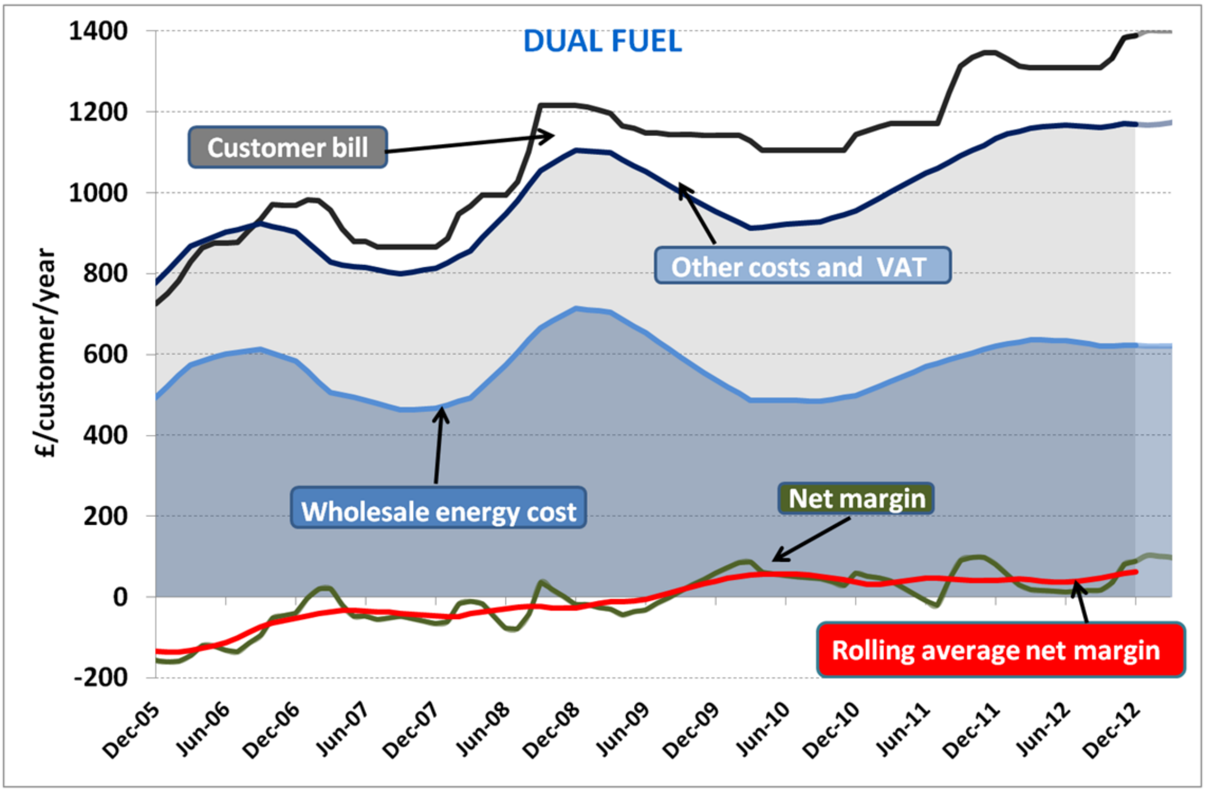


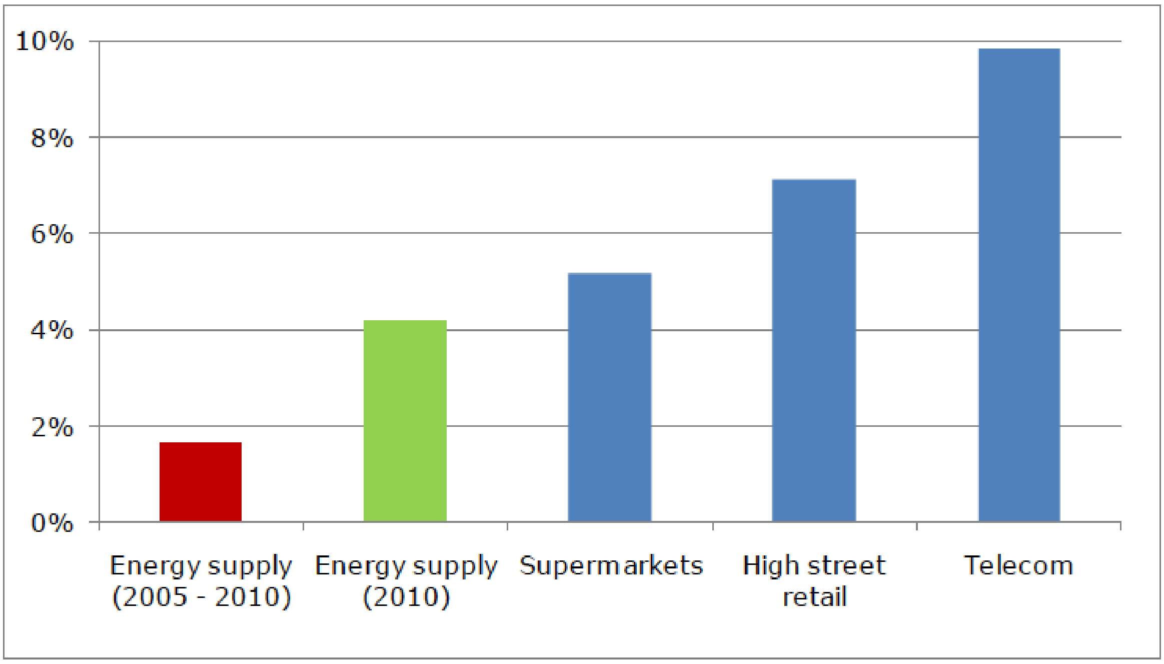
Table 4

	December 2008	December 2009	December 2010	December 2011	December 2012
Customer bill	1215	1145	1145	1345	1390
Rolling net margin	-25	40	35	40	65
Margin as % of turnover	-2.1%	3.5%	3.1%	3.0%	4.7%

5.9. Ofgem looked at margins in competitive markets during its recent retail market review. The sectors initially considered were supermarkets, high street retail and telecoms, with Ofgem focusing mainly on supermarkets and high street retail on the grounds that telecoms firms are too capital-intensive to be good comparators for asset-light energy retail businesses.

5.10. Ofgem's analysis of out-turn margins is reproduced in figure 3.

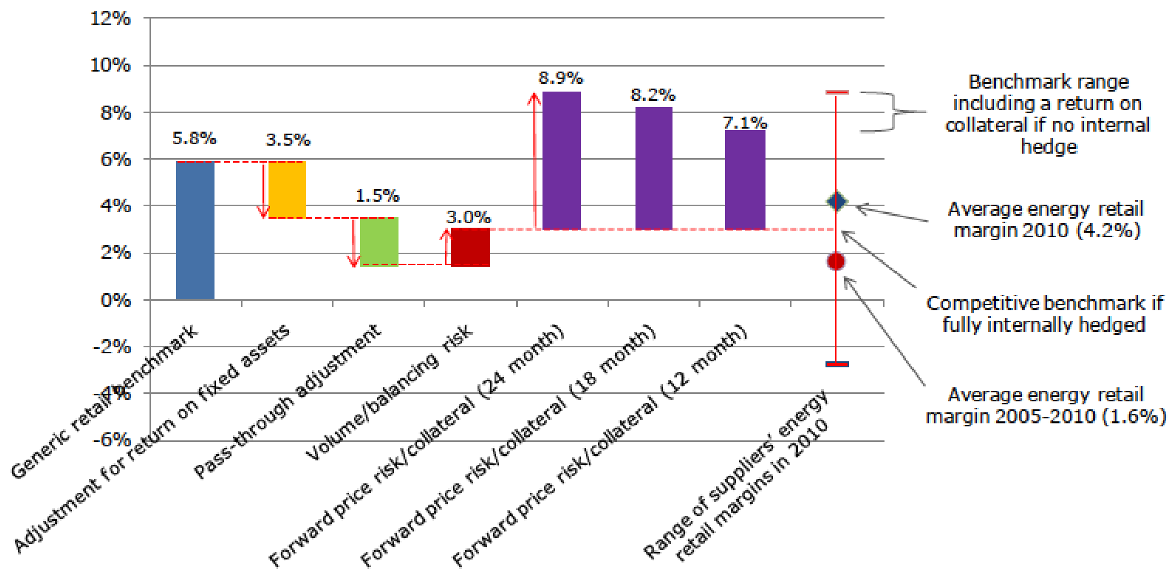
Figure 3



5.11. Ofgem concluded that a 'generic' retail benchmark is a 5.8% margin on turnover. In relating this to energy supply businesses, Ofgem noted that there were factors that pointed towards lower profit requirements in energy supply (very low capital intensity, pass-through arrangements for network charges) and factors that pointed towards higher profit requirements (volume risk, upstream purchase cost risk). Ofgem's quantification of these factors is show in figure 4 overleaf. The Utility Regulator considers that the two key reference numbers in this chart are:

- the 1.5% margin for a hypothetical business that faces no volume risk and no upstream energy price risk; and
- the 3.0% margin for a hypothetical business that faces volume risk in the GB market but no upstream energy price risk.

Figure 4



5.12. The UR will wish to consider these comparisons in more detail before making any decision. It will be especially important to evaluate the risks that Power NI faces in the NI electricity supply market, having regard to the competition it faces from rival suppliers and the protections that it has – e.g. the pass-through of efficient electricity purchase costs and the "K" correction factor.

Capital base x cost of capital

5.13. One final way of thinking about the level of the allowed margin is to look at where the profits that Power NI makes end up. First of all, it is important to be clear that profit is not a reward for the management team that runs the business on a day-to-day basis. Their reward comes in the form of salaries and bonuses, which are properly accounted for in the opex line of the price control calculation. Profit goes instead to the individuals and institutions that have previously put capital into a company, either in the form of interest payments (in the case of people that have lent money as debt) or as dividends (in the case of people that have made equity investments).

5.14. Looked at in this way, profit is the reward that lenders and shareholders expect and deserve in exchange for putting their money into an energy retail business rather than any of the other investments that are available in today's financial markets. It follows that the profit allowance within a price control calculation can be sized by reference to two main factors: the scale of investors' committed capital; and the fair rate of return on that capital, having regard to the risks to the investment – i.e. the opportunity cost that investors have incurred by foregoing investments elsewhere.

Capital Base

5.15. Most of the companies that the UR regulates are asset-intensive businesses, which have previously taken capital from lenders and shareholders and invested the money in physical assets. Energy retail businesses are different in that they require very few physical assets in order to provide services to customers. The financial capital they require on an ongoing basis takes the form mainly of financial resources to manage wholesale purchasing costs, revenue collection from customers and the inevitable short-term mismatch between incomings and outgoings.

5.16. The UR considers that it would be helpful in this review to understand how much external funding Power NI requires on the assumption that it is efficiently financed and managed. We are therefore asking Power NI to detail for us its uses and sources of financing. This capital may conceivably be put into:

- Fixed assets: energy retail businesses might wish to have their own premises, their own office equipment and their own physical apparatus for any in-house billing or customer service activity;
- Intangible assets: there may also be upfront investments in software to support a number of the activities that a retail business undertakes. Any intangible assets included need to be based on actual historical expenditure/investment i.e. actual capital employed and not nebulas intangible assets such as brand value;
- Collateral and security deposits: Power NI, like most energy retail businesses, hedges its exposure to changes in upstream electricity prices. This hedging activity sometimes requires Power NI to pass upfront cash payments to counterparties in order to secure the best possible hedge price. The company must also lodge certain other

security deposits with other companies within the NI market's regulatory framework; and

- Working capital: the nature of an energy retail business is such that companies generally make payments to generators before they collect revenue from customers. This creates a non-trivial working capital requirement, which has to be funded by the retailer's shareholders and/or lenders.

5.17. The last of these things is not a fixed number. Power NI highlighted during the last price control review that its working capital requirement would fluctuate due to unforeseen changes in upstream electricity purchase costs and argued that an efficient retail business would provide in advance for 'worst case scenario' additional outlays via a large upfront cash injection. The UR ultimately rejected the submissions that Power NI made on the grounds that it was not plausible to think that an efficient company would take from investors the amount that Power NI was claiming (£125m) in the expectation that in most states of the world this money would sit idle in the bank. There was, however, recognition that there could be grounds for compensating Power NI in advance on a more conditional basis for the possibility that it would need access to additional capital during the price control period.

5.18. The UR intends to work with Power NI in the coming months to understand how and at what cost an efficient company can secure access to new money in the event that its working capital requirement suddenly increases. We think it is possible to apply a set of principles in advance of this discussion. They are that:

- the capital requirement we are looking at under this heading is fundamentally a short-term capital requirement, in which there can be an expectation that monies will be repaid within a matter of months;[13]
- capital should initially be provided on a conditional basis – i.e. money need not change hands until it is actually required;

[13] This expectation is founded on the existence and definition of the G_t and K_t terms in Power NI's licence, which together provide the company and its capital providers a high degree of assurance that any additional outlays that give rise to an additional working capital requirement will ultimately be passed on to customers in the form of higher tariffs.

- any unavoidable transaction costs that Power NI incurs in securing future access to such capital should be considered part of the company's efficient cost base and be paid for by customers; and
- the additional amount to factor into Power NI's capital base for the purposes of a forward-looking estimate of funding requirements is the expected or probability weighted value of the drawdown of additional working capital in a tariff year.

5.19. The fourth of these principles requires further explanation.

5.20. The overarching philosophy that runs through the whole of the UR's approach to setting price controls is that shareholders should not come out of a periodic review expecting to make supernormal profits or suffer sub-normal returns. A price control should instead be a sort of 'fair bet' in which the chances of making money or losing money are equally balanced. In the analysis of additional working capital, it may be that upfront provision for only a base or central case level of working capital would not constitute a fair bet. This is because the cost to the company in unfavourable states of the world – i.e. additional financing cost – can be greater than the benefit to the company in more favourable states of the world – i.e. additional interest on money held at the bank on deposit.

5.21. In these circumstances, a fair bet is one in which there is a recognition upfront that Power NI is, on balance, likely to have suffered some period(s) of enhanced working capital requirement by the end of the next price control period.

Cost of capital

5.22. Work during this review to price the external funding that Power NI requires will need to draw as much as possible on the company's real-life experiences. We can also draw from the UR's work on cost of capital during the recent price control determination for NIE's transmission and distribution (T&D) business, especially when establishing the generic inputs e.g. risk free rate of the cost of any equity funding that Power NI needs. In this review, we require a nominal pre-tax cost of capital, which can be calculated as:

$$pre\text{-}tax\ WACC = K_d.g + K_e.(1-g)/(1-t)$$

where WACC is the weighted average cost of capital, K_d is the cost of debt, K_e is the cost of equity, g is gearing and t is the statutory corporation tax rate.

5.23. The cost of equity component within this calculation is conventionally estimated using the Capital Asset Pricing Model (CAPM):

$$K_e = R_f + \beta_e \, . \, (R_m - R_f)$$

where R_f is the risk-free rate, R_m is the expected return on the market portfolio and β is beta, a business-specific measure of investors' exposure to systematic risk.

5.24. The UR's initial thoughts on these parameters are as follows:

- Gearing: we will wish to establish how much of its funding requirement Power NI can satisfy by borrowing and how much of an equity contribution Power NI's shareholder needs to make in order that the business can access credit on efficient terms.
- Cost of debt: as noted above, the UR wishes to understand the real-life cost of the bank facilities and other credit that Power NI requires. This is an area where the UR will be asking for some real-life data from Power NI in the form of actual costs paid or up-to-date quotes from banks.
- Risk-free rate and equity-risk premium: Two of the inputs into the cost of capital are generic market parameters whose value should not change across the different price reviews that the UR conducts. In its NIE T&D determination the UR estimated the real risk-free rate and the equity-risk premium to be 2% and 5% respectively. Translating the real risk-free rate into its nominal equivalent using expected inflation of 3.15%[14] gives figures of 5.25% for the nominal risk-free rate and 10.25% for the expected market return.
- Beta: the UR used an asset beta of 0.42 in the recent NIE T&D determination. Power NI might have a different beta for a number of reasons: it is exposed to volume/revenue risk as well as cost risk; and it is a not a natural monopoly but instead operates in an increasingly competitive market where there is a threat of loss of market share. At the

[14] The formula is 1 + nominal risk-free rate = (1 + real risk-free rate) x (1 + inflation).

same time, the UR's regulatory framework also gives Power NI significant protection against external shocks. As noted above, the UR wishes to consider the risks that Power NI is exposed to in some detail during the review.

- Tax: the UK's corporation tax rate is scheduled to fall to 21% from April 2014.

Q8.	***What are respondents' views on the three methods of calculating margin that are discussed in Section 5?***
Q9.	***As detailed in Section 5, do respondents' believe the UR should look across the range of methods or choose one method over the others when assessing margin? Please explain your reasons why.***

6. FINANCEABILITY

6.1. In the last review of its price control, Power NI made representations to the UR about the need for a financeability test. This section sets out our initial thinking and position on this matter.

Definition

6.2. The most commonly cited definition of financeability is the one used by Ofwat:

> *We have a duty to secure that companies are able to finance the proper carrying out of their functions as licensed undertakers ('finance functions'). We look at this as having two strands. One is to secure that, if a company is efficiently managed and financed, it is able to earn a return at least equal to the cost of capital. The second is that its revenues, profits and cash flows must allow it to raise finance on reasonable terms in the capital markets. We refer to this second strand as financeability.*[15]

Regulatory practice

6.3. Regulatory decisions issued during the 1990s did not make any reference to the concept of financeability. The thinking at this time was that setting a return at least equal to the cost of capital logically ensured that regulated companies would be attractive to investors and would be able to raise new finance as required.

6.4. The idea that a regulator's duties extended to more than setting the right rate of return was prompted by two main things:

- first, there was a realisation that large investment programmes would not be a short-term, post-privatisation phenomenon. This meant that it could not be taken for granted that regulated companies would always have

[15] Ofwat (2004), Future water and sewerage charges 2005-10: final determinations.

room in their balance sheet to finance new capital expenditure via new borrowing; and

- second, regulators noticed that rating agencies, and by implication lenders, were troubled by the regulatory convention of allowing a real return on RAB's and compensating for the effects of inflation via indexation of the asset value. Specifically, as borrowing increased, it became evident that the cash flow mismatch between the real rate of return and nominal interest payments was starting to squeeze interest cover ratios and put downward pressure on companies' credit ratings.[16]

6.5. The combination of these two things meant that it could not be taken for granted that allowing a return in line with the (real) cost of capital would produce financial ratios that were acceptable to investors. Regulators therefore started to subject their price control decisions to additional financeability tests, usually in the form of an inspection of key financial ratios against threshold values that rating agencies have indicated a solid investment-grade company should exhibit. This has been accompanied by an as-yet-unresolved debate about what it is that a regulator should do if it finds that a price control decision produces an unacceptable set of financial ratios.

Relevance to Retail Businesses

6.6. This very brief history of financeability <u>relates specifically to network businesses</u>. There are at least three things that mean it is not obvious how relevant this story is to <u>retail</u> businesses:

- regulated retail businesses have not historically had to finance capital programmes for customers and there is no reason to think that they will necessarily have accumulated debt on their balance sheets;
- they are also not being asked to invest going forward and are not therefore required to raise new capital; and

[16] For those who have not encountered this mismatch before, a good example can be found in the Utility Regulator's recent price control determination for NIE. The cost of capital calculation in this decision recognises that NIE will pay an effective nominal interest rate of 6.65% on its debts, but provides for only an inflation-stripped 3.4% cost of debt in allowed revenue.

- The real/nominal mismatch does not exist in retail regulation, insofar as the margin that companies are allowed is not an inflation-stripped return like the allowed return for network businesses.

6.7. These three things make it very difficult to see why there is added value in examining the 'revenues, profits and cash flows' of a regulated retail business. When regulating network businesses, profits and cash flows may take on counter-intuitive values as a result of geared balance sheets, new capital requirements and the real/nominal mismatch.

6.8. This means that the two-strand test set out above collapses into a single question, namely: is the allowed margin sufficient reward to keep investors interested in retail businesses?

Conclusion

6.9. For this reason, the UR does not think it is necessary or practicable to apply a traditional financeability test to retail price control decisions. The UR can best discharge its duties to secure that companies are able to finance their price controlled licence activities by demonstrating that it has a robust, evidence-based methodology for calculating allowed opex and margins, including by showing that the return on offer:

- compares favourably with the returns that investors can get by investing in efficient businesses with similar risk profiles; and
- is capable of supporting and sustaining the investor capital that an efficient company would need for fixed assets and working capital plus access to a reasonable buffer to accommodate unanticipated financial shocks.

Q10. Do respondents agree that the appropriate financeability test is ensuring that Power NI can finance their price controlled licence activities by the UR demonstrating that it has a robust evidence-based methodology for calculating opex and margins? If not, please explain your reasons and advise what form of financeability test the UR should undertake.

7. CONSULTATION QUESTIONS

7.1. The UR is keen to hear the views of interested stakeholders and invite representations on the following questions:

Q1. Do respondents agree that where this consultation has an impact on the groups listed, those impacts are likely to be positive in relation to equality of opportunity for energy consumers?

Q2. Do respondents consider that the approach needs to be refined in any way to meet the equality provisions? If so, why and how? Please provide supporting information and evidence.

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

Q4. In the Non-Domestic sector that is currently subject to price control regulation, do respondents agree that it is reasonable to assess Power NI supplier dominance in the 3 sections the UR has detailed: 0-50 MWh; 50-100 MWh and; 100-150 MWh per annum? If not, please explain your rationale.

Q5. How long do respondents feel the next price control should last?

Q6. Do respondents feel the 67:33 fixed:variable apportionment of Power NI's own allowed revenue (operating costs plus margin) is an appropriate method for reducing the opex and margin allowance in line with customer losses?

Q7. Do respondents believe the approach outlined to assessing opex is appropriate at this price review following the 'line by line' approach at the last review? If not, please explain what approach you believe the UR should take to assessing opex and the reasons why.

Q8. What are respondents' views on the three methods of calculating margin that are discussed in Section 5?

Q9. As detailed in Section 5, do respondents' believe the UR should look across the range of methods or choose one method over the others when assessing margin? Please explain your reasons why.

Q10. Do respondents agree that the appropriate financeability test is ensuring that Power NI can finance their price controlled licence activities by the UR demonstrating that it has a robust evidence-based methodology for calculating opex and margins? If not, please explain your reasons and advise what form of financeability test the UR should undertake.

8. TIMEFRAME AND NEXT STEPS

8.1. The following timetable is an updated version of that which was originally set out in the UR Information Note, published in November. It highlights the various stages of the price control review process and (approximately) when the UR expects each milestone to be achieved.

Table 5: Price Control Review timetable

Date	Milestone
November 2012	Utility Regulator information paper published
Early February 2013	Utility Regulator to send business efficiency questionnaire (BEQ) to Power NI
Early February 2013	Utility Regulator consultation paper on price control Approach to be published
26 February 2013	Stakeholder workshop
22 March 2013	Deadline for Power NI response to business efficiency questionnaire
22 March 2013	End of consultation period
April/May 2013	Follow-up with Power NI and other parties as necessary
End June 2013	Utility Regulator to publish consultation paper
July 2013	Stakeholder seminar
End September 2013	End of consultation period
December 2013	Utility Regulator to publish final decision
January 2014	Utility Regulator to consult on licence modifications
February 2014	End of consultation period Deadline for Power NI to accept or reject licence modifications

8.2. In addition to Power NI, the UR hopes that a wide range of interested parties will actively participate in the review process, including customers/customer representatives and rival retailers.

8.3. During the consultation period, the UR will host a stakeholder workshop on 26 February 2013 from 10.00 to 12.00. This is to help ensure that stakeholders have an opportunity to engage at this early stage of the price control process. The workshop will allow stakeholders the opportunity to engage directly with the UR and other interested stakeholders to gain clarification/raise any issues arising from this paper.

8.4. Please contact Robert Stewart (robert.stewart@uregni.gov.uk) by 22 February 2013 if you would like to register your interest in attending this event.

8.5. Feedback to this consultation from interested stakeholders will help to shape the UR's consultation paper containing proposals which is planned for the end of June and to last a period of 12 weeks. That consultation paper will include details of respondents' feedback to this consultation and include the UR's proposals with regards to Power NI's operating costs, profit margin, scope of control and duration.