

NIE NETWORKS' RP7 PRICE CONTROL: UR'S PROPOSED APPROACH

NIE Networks' Response to the UR's Consultation Paper of 2 March 2022

18 May 2022

1. INTRODUCTION

NIE Networks welcomes the opportunity to respond to the Utility Regulator's (UR) consultation on its initial views regarding its approach to NIE Networks' RP7 price control.

As noted by the UR, the development of RP7 is taking place in the context of rapidly changing demands and expectations being placed on the electricity network. We would go further to highlight that, in our view the Northern Ireland energy system is at a transformational juncture, with the RP7 price control presenting a pivotal opportunity to deliver radical change in how Northern Ireland provides and consumes energy. We believe that our customers will be at the heart of this transformation and our Business Plan will set out to ensure that all customers are enabled to play their part in decarbonising our society.

As highlighted by the UR, in December 2021, the Northern Ireland Executive published its new Energy Strategy 'A Pathway to Net Zero Energy' which sets a long-term vision of net zero carbon by 2050. This strategy also commits to interim 2030 deliverables, including 70% of electricity consumption from renewable sources and doubling the size of the low carbon and renewable energy economy to that of a turnover of more than £2 billion by 2030.

Subsequently, Northern Ireland's first Climate Change Bill was passed in the Northern Ireland Assembly in March 2022, bringing it in line with the rest of the UK and with the Republic of Ireland. The Climate Change Bill makes a legal commitment to achieve net zero emissions by 2050. It also commits to 80% of electricity consumption coming from renewable sources by 2030, taking precedence over the original target of 70% within the Energy Strategy. The further addition of a specific target of 100% reduction in carbon dioxide emissions effectively means that the energy sector will be required to fully decarbonise by 2050 or sooner.

In addition to the energy transition, we are also mindful of the current challenges faced by consumers in relation to energy prices and fuel poverty and acknowledge that the RP7 price control needs to be considered in that context. However, it is our view that reducing or delaying investment to minimise costs in the short term is not in the best interests of Northern Ireland consumers. Rather, the RP7 price control needs to support the right level of investment to enable Northern Ireland transition away from its current reliance on imported fossil fuel and move to an energy system based on indigenous clean energy, creating economic value in the local economy. Moreover, such transition from fossil fuels to clean renewable energy will grow demand for electricity which will help reduce electricity prices and overall energy costs for Northern Ireland consumers.

2. RP7 – A TRANSFORMATIONAL OPPORTUNITY

NIE Networks is committed to working constructively with the UR to ensure the regulatory framework for RP7 is suitable so that we can play our part in facilitating the path to Net Zero mandated by government legislation as well as meeting 2030 targets.

In April 2021, NIE Networks published its strategy paper titled 'Networks for Net Zero' setting out our considered views on the options and pathways for decarbonisation in Northern Ireland and how electrification can play a significant role in a flexible and integrated decarbonised energy system.

The journey to net zero is already impacting customer reliance on the electricity network with the past decade seeing an unprecedented uptake in customers installing renewable generation and low carbon technologies. The ambition of a decarbonised society is already driving significant growth in low carbon technology in Northern Ireland such as electric vehicles, solar PV, wind turbines and heat pumps. Moreover, the expected electrification of heat and transport will lead to a significant step-change in demands on the electricity network to levels for which it was not designed.

The RP7 price control is intended to cover the period from 2024 to 2030 and is therefore critical to achieving the Energy Strategy targets now legislated for by 2030, as well as being a critical period on the overall pathway to achieving net zero carbon by 2050.

Our ambition is that the RP7 price control should be transformational in the outcomes it delivers to enable our customers to participate in decarbonisation. We will be focussing on investment to meet customer and societal needs while building a robust and digitalised network able to support increased electrification. This will facilitate the decarbonisation of Northern Ireland as we move towards a net zero carbon economy, as well as generating significant economic benefits for Northern Ireland in support of the NI Executive's '10X Economy' vision and Green Growth Strategy. We also recognise the need to protect the most vulnerable in society during this transition and ensure it is fair for all our customers.

Achieving this ambition will in turn require a transformational approach to the design and operation of the RP7 price control in order to meet the particular challenges of dealing with uncertainty as to the particular pathway Northern Ireland society will take towards net zero in the period to 2030 and beyond. This will require regulatory arrangements that take a longer-term view of investment requirements, not just to 2030, but also focused on the longer-term goals for 2050. Otherwise, an RP7 price control that takes a short-term view and is overly cautious or inflexible presents a real risk that the electricity network cannot keep pace with the societal uptake of low carbon technologies that will be key to delivering against the targets that government has now mandated.

While we welcome many aspects of the Approach outlined by the UR, we believe there are a number of areas within the consultation which would benefit from further detailed engagement with the UR and other stakeholders. We feel this is necessary to avoid a 'business as usual' approach to the price control and a situation where decisions on the shape of key items are decided in the normal regulatory cycle. Accordingly, in addition to our detailed comments on the consultation below, we have also outlined a proposal to review the overall timetable to allow for detailed engagement to ensure that what we reflect in our RP7 Business Plan addresses the Climate Change Bill targets.

3. DETAILED COMMENTS

3.1 Managing Uncertainty

Our view is that it is in our customers' best interests that the RP7 price control should provide NIE Networks with sufficient clarity on allowed investment in the RP7 final determination to enable investment to be designed, programmed and delivered in the most efficient and timely manner. While we agree that 'uncertainty mechanisms' are an essential element of the price control framework, we would caution against an over-reliance on these mechanisms to avoid creating an incremental plan rather than the transformational price control that is necessary to deliver the net zero mandate.

To the extent uncertainty mechanisms are employed, it is essential that there is absolute clarity as to when and how they are to be applied, as well as having clearly defined processes and timetable for any associated regulatory approval process.

LCT uncertainty: 'reasonable certainty' requirement

At paragraph 2.24(b) in the consultation paper, the UR states that it expects NIE Networks to *'develop a plan based on investment which is both reasonably certain and required over a range of demand scenarios.'*

We would be keen to engage with the UR to understand its interpretation of 'reasonable certainty'. In our view the risk and consequence of not investing in a timely manner should be considered appropriately when assessing 'reasonable certainty'.

As highlighted above, we contend that forecasts should be viewed in the context of longer-term investment requirements, not just those to 2030. This approach should aim to balance two competing scenarios, namely:

- the risk of investing ahead of need, presenting the risk of short-term stranded assets;
- as well as the risk of not investing fast enough, presenting the risk that parts of the electricity network cannot facilitate the connection of low carbon technologies (LCTs) to meet customers' needs.

In our view the risk associated with long-term stranded assets is declining. All forecasts indicate a significant increase in demand across the network; therefore, for any given investment to increase network capacity, it is highly unlikely that the associated assets will not be utilised in the medium to long-term. Rather, the primary risk is the pace of change required to deliver net zero; this will require a regulatory approach that takes a more anticipatory approach to investment requirements than has hitherto been the case.

This perspective aligns with UK Government thinking. Its recently published British Energy Security Strategy¹ recognises that an accelerated roll out of network infrastructure is required to underpin its broader goal of accelerating deployment of LCT, stating *'building ahead of need, where good value for money, may mean paying more in the short term for an asset that isn't efficiently utilised immediately but is the cheapest option over the long term and reduces the need for repeated disruptive works to continually upgrade the system.'*

We would urge the UR to take a similar approach to its determination of the RP7 price control.

¹ BEIS (April 2022) <https://www.gov.uk/government/publications/british-energy-security-strategy/british-energy-security-strategy#networks-storage-and-flexibility>

LCT uncertainty: mid-point reopener

At paragraph 3.18 the UR states: ‘... *in view of the uncertainty created by the transition to net zero, we will consider reviewing the outputs and need for investment at the mid-point of the RP7 price control to take account of material changes in demand. This would be a limited review focused on changes in outputs and we would not expect to amend other financial targets such as return on capital or benchmarked operational costs during that review.*’

In our view a simple mid-point reopener is not the optimal solution for managing uncertainty in RP7, particularly if in the first instance, allowances provided for in the RP7 final determination are based on conservative estimates of investment requirements over the entire regulatory period. This would present a piecemeal and short-term approach to investment planning, the antithesis of the transformational approach to RP7 that is required. Rather, we would propose that a more flexible LCT uncertainty mechanism is required for the RP7 period, based on updated forecasts of anticipated investments.

More broadly, planning for RP7 will present particular challenges because of the significant uncertainties in both the energy sector and wider economy, associated with forecasting LCT growth as well as ongoing and significant uncertainties reflecting current wider geopolitical and macro-economic turbulence. We would argue therefore that RP7 needs to be adaptable to change, and should include a range of uncertainty mechanisms to allow a more agile response to broader change in circumstances, including mechanisms to allow additional funding to be determined at any stage during the price control.

The UR refers to ‘reviewing the outputs’; we would suggest that this should be based on forward looking forecasts, rather than a retrospective review of LCT connections. LCT growth is dependent on ensuring that network capacity remains a step ahead of need; if not, the projected level of LCT uptake is unlikely to be achieved. Therefore, given the expected upward trajectory of LCT uptake, we believe that an inflexible price control whereby network solutions lag behind customer demand presents a greater risk to customers than any perceived risk of investing ahead of need.

3.2 Innovation

In the summary table on page 22 the UR states: ‘*We expect the company to undertake innovation as part of its “Business as Usual” activities, demonstrate the benefit of innovation funded in RP6 and take account of work on innovation by other network operators.*’

NIE Networks continues to innovate as part of its ‘business as usual’ activities and has delivered significant customer benefits in doing so. In RP6 we have also had access to regulatory funding to run specific significant innovation projects, leveraging learning from projects in other jurisdictions. These projects are now transitioning to ‘business as usual’ and we will be reflecting them within our RP7 business plan, delivering customer benefits from the outset. In short, customers will benefit significantly from the innovation allowances that we were granted in RP6.

We agree with the Energy Strategy that ‘*Innovation will be at the heart of an economy based on low carbon technologies.*’ In many ways the electricity system in Northern Ireland will be representative of future electricity systems across the world as they become more decentralised. This is one of the reasons why our stakeholders have told us that Northern Ireland should leverage these specific circumstances to be leaders in innovation, not just fast followers.

We are also acutely aware that significant investment will be required to achieve Net Zero, and that innovation will be essential to minimise the levels of required investment and costs for customers. It is therefore imperative that provision for innovation is at the heart of RP7, and we believe, based on experience from many other jurisdictions² and our own experience in RP6, that innovation allowances are the best way to promote and stimulate innovation.

More broadly, our stakeholders have also endorsed us taking a more 'whole system' approach to innovation, engaging with SONI, other utilities and wider industry to deliver customer benefits. Some of the benefits of this innovation may not be directly beneficial to the electricity network but may be beneficial to customers and the overall system; for example, delivering efficiency of the electricity markets and ancillary services. As such, since the benefits are not directly applicable to NIE Networks we believe that innovation allowances will be required in RP7 to create the necessary innovation stimulus to enable NIE Networks and other stakeholders play their part to support these initiatives, for the benefit of the overall system and delivery of government's Energy Strategy.

3.3 Network Resilience - Asset Replacement

Activity rates and unit costs

At paragraph 3.93 the UR states: *'Our starting point will be that the activity rates and unit costs delivered in RP6 can be sustained in RP7. The company should provide a clear explanation and evidence, if it believes that activity rates or unit costs need to increase in RP7.'*

NIE Networks does not consider that RP6 activity rates and unit costs can be sustained in RP7, and we will provide the appropriate evidence as part of our business plan submission.

It will be necessary to significantly increase asset replacement activity rates in RP7 to address the age profile of the network³. The initial development of the electricity network in Northern Ireland occurred in the 1950s and 1960s, and much of the original network that was built all those decades ago remains in use. Because of their condition and risk (including the critical role these assets will play in supporting electrification of heating and transport), many of these assets that are now more than 50-60 years old, will need replacement in order to maintain reliability of supply. This replacement will need to take place during RP7 and subsequent price controls and therefore we will need to undertake a comparatively bigger programme of network renewal than ever before.

With regard to unit costs, as with many other businesses, our supply chain costs are currently impacted by significant uncertainties reflecting wider geopolitical and macro-economic turbulence. This in turn presents significant challenge to accurately forecast unit costs in the period out to 2030. The RP7 price control should cater adequately for this uncertainty, with consideration given to an ex-post true-up of demonstrable real price effects.

Flexibility of outputs

The RP6 final determination defines ex-ante asset replacement capital investment allowances in the form of physical outputs and unit cost allowances with some limited flexibility to cater for changes in the course of the regulatory period to address emerging issues.

² Such as Ofgem's RIIO arrangements, which recognised that RPI-X economic incentives do not promote innovation.

³ As highlighted in our RP6 Business Plan submission.

For RP7, we are keen to discuss with the UR how these arrangements could be improved to provide greater flexibility to use ex-ante capex allowances to address emerging network issues e.g. having broader substitution criteria than currently exists in our RP6 price control.

3.4 General Structure of the RP7 Price Control

Incentives

At paragraph 3.24 the UR states: *'We would welcome proposals from NIE Networks for further incentive mechanisms for RP7.'*

Regarding financial incentive mechanisms for RP7, we are currently considering the merits for customers of introducing a customer service incentive scheme for RP7, as well as potential modifications to the existing RP6 CML incentive arrangements to bring these more into line with the approach adopted by Ofgem for the GB DNOs. We will bring forward our proposals in this regard as part of our RP7 Business Plan.

At paragraph 3.24 the UR also states: *'The company should show that it has robust information on current performance trends which will allow future incentive targets to be set. This includes demonstrating how performance against the incentive mechanism can be separated from other improvements such as network upgrades funded through the Price Control.'*

We would wish to discuss with the UR its requirements in this regard, in particular with reference to network performance incentives. It should be noted that historic network performance trends can only be viewed on a holistic basis and whilst fault data can be disaggregated by area and equipment type, it is not possible to empirically demonstrate improvements in overall performance by the type of investment or operational initiative. We do however recognise the need to forecast future improvements and we will endeavour to do this in line with industry best practice.

D5 Re-opener Mechanism

In paragraph 2.15, the UR refers to a range of RP6 re-opener mechanisms including the D5 mechanism. At footnote 2 to paragraph 2.15 the UR states: *'The D5 mechanisms allows investment projects to increase transmission system capacity to be determined as the scope and timing is confirmed by SONI.'*

It should be noted that this mechanism has been used during RP6 for two large scale asset replacement projects; namely the Coolkeeragh to Magherafelt 275kV Overhead Line Replacement and the Ballylumford 110kV Switchboard Replacement projects. We would contend that this approach should again be adopted in RP7 i.e. that the D5 mechanism is also considered for large asset replacement projects where there is significant uncertainty around the scope of works or where the project scale leads to greater uncertainty in construction cost.

More broadly, NIE Networks would welcome the opportunity to discuss further with the UR potential ways in which the D5 mechanism could be improved for RP7, to include efficiencies that could be realised in the submission and approval process thereby reducing the time and resource required both by NIE Networks and the UR. The pace of change required on the

transmission network to facilitate the 80% renewables target⁴ by 2030 makes it essential to have a more streamlined D5 process for regulatory approvals.

3.5 Areas falling outside the RP7 Price Control

At paragraphs 3.145 to 3.150 the UR proposes dealing with a number of key issues ‘*outside the RP7 price control*’. These include:-

- Smart metering
- Connection charges policy
- Contestable works in Connections
- TUoS revenue collection

We have comments on smart metering and connection charges policy as follows.

Smart Metering

With regard to smart metering, the UR proposes to include a re-opener mechanism in the RP7 price control because of the current uncertainty as to costs and benefits that would arise if a smart metering programme were to proceed. NIE Networks is broadly content in principle with this approach but we are keen to discuss with the UR how this would work in practice; for example, we see merit in considering a two-stage process for design and implementation of the project akin to the D5 arrangements for major network projects.

Furthermore, at paragraphs 3.146 and 3.147 the UR states: ‘*Pending the outcome of this work, we expect NIE Networks to develop its Business Plan based on the current approach to metering. We also expect the company to include an outline assessment of the likely costs and savings of the introduction of Smart metering including any information provided to DfE to inform its Cost Benefit Analysis (CBA).*

We intend to include a re-opener mechanism in our RP7 price control to address additional costs and savings arising from future decisions on Smart metering. We would expect any additional costs determined through this re-opener to be in line with the costs identified within the CBA carried out. We would also seek to consider wider savings on network response and interventions as a result of the additional information available from Smart meters.’

NIE Networks is content to provide our assessment of the potential costs and savings associated with the introduction of smart metering, and we will continue to engage with the Department for the Economy (DfE) to inform its CBA. As the UR will be aware, the model for smart metering in Northern Ireland has yet to be agreed by stakeholders, including the UR, electricity suppliers, DfE and NIE Networks. The costs and benefits of smart metering will vary depending on the model and detailed design being applied, and will therefore remain uncertain at the time of our Business Plan submission.

It is specifically because of this uncertainty that we agree with the UR’s proposal to include a re-opener mechanism in the RP7 price control to determine the additional costs and benefits of smart metering at some future date. This mechanism will allow these costs and benefits to be assessed more accurately when there is greater certainty on the model and the detailed design of the smart metering solution for Northern Ireland.

⁴ 80% of electricity consumption coming from renewable sources.

Therefore, for the avoidance of doubt, any assessment of smart metering costs and benefits that we can provide as part of our Business Plan submission should be considered only as indicative, and will be based on information available to us at that time. It would not be appropriate for these indicative costs to be used in the assessment of any subsequent price control re-opener submission as the re-opener will be based on information updated after the DfE's CBA process.

With regard to paragraph 3.146, we note the UR's statement that *'Pending the outcome of this work, we expect NIE Networks to develop its Business Plan based on the current approach to metering'*. We would welcome discussion with the UR whether assuming a 'business as usual' approach to metering activities ahead of a decision on smart metering represents the optimal approach for customers.

Connection charges policy

At paragraph 3.148 the UR states: *'We will continue to engage with NIE Networks and DfE on connection charging policy to ensure that the regime is fit for purpose to facilitate new connections and meet the decarbonisation and 2030 Energy Strategy targets.'*

As the UR will be aware, NIE Networks continues to advocate strongly for a Connections Charging Review in Northern Ireland to more closely align connections charging methodology in Northern Ireland to that of neighbouring jurisdictions. This would ensure there is a level playing field in connections charging in order to encourage investment in the wider economy. We also see this review as being critical in light of the increasing uptake of LCTs and their impact on connection costs (as well as the impact of connection costs on the timing of LCT uptake). We are committed to working with DfE and the UR to take this item forward as we believe it is fundamental that this review takes place in the context of delivering the 80% renewables target by 2030. Given current market pressures, this issue may need to be progressed in advance of RP7.

Changing connections charging policy would have a very significant impact on the RP7 price control which needs to be recognised within the UR's Approach Decision. It is unclear from the UR's consultation paper how the UR intends dealing with this key issue in the context of the RP7 price control. We would welcome engagement with the UR in the time before submission of our Business Plan to ensure that we determine how best to ensure that this issue is properly addressed.

3.6 Treatment of business rates

The UR makes no reference in its consultation paper to its proposed approach to the treatment of business rates costs in the RP7 price control.

At RP6, NIE Networks made representations to the UR that business rates should be treated as a pass-through cost, since these costs are deemed uncontrollable by NIE Networks. However, the UR did not agree with our view and the allowance was set on an ex-ante basis.

As NIE Networks has no ability to control the level of business rates applied, the UR's allowance-setting approach effectively amounts to the granting of a windfall gain (or loss) to the company with a corresponding loss (or gain) for customers. This regulatory approach makes little sense in our opinion.

Since the RP6 price control was set, we note that the UR has applied a different approach to other price controls that recognise the uncontrollable nature of business rates. In its recently published draft determination for GD23, the UR proposes to allow outturn rates costs for the GDNs to be trued-up using an uncertainty mechanism, which is a much more appropriate approach in our opinion. We would welcome a broadly similar approach being adopted for business rates at RP7 and would ask that the UR gives this due consideration.

3.7 Financial Issues

Base year

At paragraph 3.111 the UR states: *'It is our intention that the Base Year for RP7 will be 2021/22 which is the last complete financial year before the business plan submission.'*

At paragraph 3.134 the UR states: *'We will ask the company to establish its baseline operating costs and identify foreseeable reductions or increases in costs for future years. Our approach to base-lining of operating expenditure going forward will be to:*

- *adopt our twin tests of 'newness' and 'exogeneity' to establish the need for increased operational spend before we allow increased costs to be borne by consumers as part of the RP7 regulatory contract'.*

Whilst we agree that all costs should be in 2021/22 prices, there is a risk to the company of understating costs if the UR uses 2021/22 as the base year from which to project forward future costs without applying appropriate adjustments. For example, due to the current volatility in inflation and the timing delay of items catching up with inflation e.g. pay awards, rates, etc, if the UR sets allowances for such costs based on their levels in 2021/22, they will be understated (and in some cases, materially so) compared to NIE Networks' actual costs in future years.

We note the UR's intention to apply the twin tests of 'newness and exogeneity' to determine any adjustments to baseline costs. However, it is unclear with regard to the examples we cite above where delayed inflation-driven cost increases are not apparent in the baseline, if the UR would consider these costs to be new and exogenous. We look forward to engaging further with the UR as part of the RP7 process, so that these issues can be addressed.

Adjusting for inflation: RPI versus CPIH

At paragraph 3.117 the UR states: *'... we have concluded that we should replace RPI with CPIH as the measure of general inflation in RP7.'*

NIE Networks' position is that RPI should remain as the inflation index for RP7 as it will remain in use throughout the proposed period of the RP7 Price Control. As this is a material issue for our business, we would welcome engagement with the UR on this important matter as part of the RP7 process.

Frontier shift – approach to Real Price Effects (RPEs)

At paragraph 3.136 the UR states: *'We are minded to continue examining the likely extent of frontier shift across the electricity industry, using similar companies to NIE Networks as the basis for expenditure category weights, by adopting the same approach as in other recent network price controls.'*

Ofgem has made a significant change to its approach to RPEs in RIIO-2, whereby instead of granting fixed ex-ante allowances, RPE allowances are now indexed and subject to an ex-post 'true-up' adjustment. We consider this approach is more appropriate for RP7 in the current context of mounting supply chain pressures and uncertainties, and the unpredictable and high levels of inflation. We would welcome engagement with the UR on this matter as part of the RP7 process.

WACC: Cost of debt

At paragraph 3.124 the UR states: 'In our determination of WACC, we use a basket of indices for debt at bonds to estimate the future cost of new debt raised in the price control period. The cost of debt mechanism introduced in RP6 adjusted the cost of debt to reflect movement in bond market prices/yields (measured using the Markit iBoxx database) with the company taking 20% of the benefit or risk of this movement relative to the projections made in the determination. The company retained all of the risk or benefit of the cost of debt raised, relative to the basket of indices used. In RP7, we will consider adjustments to the basket of indices used in the debt mechanism, the balance of risk and reward in the 20/80 sharing mechanism and consider introducing some sharing of actual cost of debt compared to the benchmark indices used.'

NIE Networks considers that the cost of debt mechanism continues to be an appropriate mechanism which should also feature in RP7 as it allows NIE Networks to continue to access public debt markets in a way that is beneficial for customers while also avoiding significant subjectivity in the calculation of the debt element of our cost of capital. We are therefore happy to engage with the UR on the details of the mechanism but would expect it to continue to operate on a similar basis to RP6.

Regulatory reporting matters: other issues for consideration

We wish to discuss with the UR specific regulatory requirements such as, but not limited to: the format / requirement of the Regulatory Accounts; audit of Tax Reports; requirements of 6-week statements; publication of RIGs data; publication of historical data for maximum regulated revenue both on the website and in the Regulatory Accounts and other relevant items contained within Paragraph 12 of Annex 2 of the Licence.

3.8 Other Matters

Consumer Metrics

At paragraphs 3.51 to 3.56, the UR discusses the development of consumer measures to provide the basis for targeting improved service in RP7.

NIE Networks is currently considering these measures and we will consult extensively with the Consumer Engagement Advisory Panel (CEAP) to inform our proposals in this regard for inclusion in our RP7 Business Plan.

Workforce resilience

At paragraph 3.28, the UR sets out its proposed information requirements for inclusion within NIE Networks' RP7 Business Plan. This includes the company's plans regarding workforce resilience.

We welcome the UR's recognition of this important issue which will require much more significant consideration for RP7 than previous price controls. It is essential that we have a highly trained, motivated and committed workforce that has both the capacity and skills to deliver the ambitious plans we have for RP7 and beyond.

The scale of transformational change required of the electricity network by 2030 and beyond will depend on a 'step-change' in the development of NIE Networks' organisation in order for us to meet these future challenges. This includes consideration of new technical skills/expertise required, as well as the strategies to acquire and retain these much sought-after people in sufficient quantity in an increasingly competitive global market place.

Moreover, we are also faced with a considerable workforce renewal challenge, with a very significant level of staff retirements expected in RP7. This will also require high numbers of new staff to be recruited and trained, which coupled with the growth in additional roles referred to above, will present us with significantly greater staff transition costs than in previous periods.

These challenges are at the forefront of our thinking and we will provide our workforce resilience strategy and proposals as part of our RP7 Business Plan submission.

Information Requirements

At paragraph 3.27, the UR states that: '*.. for RP7 we will ...*

- *reserve the right to appoint, where appropriate, an independent expert to examine either the recording or presentation of relevant information by NIE Networks;*
- *reserve the right to request, where appropriate, an audit of specified information relating to the RP7 price control, including specification of the terms on which an auditor is to be appointed by NIE Networks for that purpose and of the nature of the audit to be carried out by that person;'*

NIE Networks' respects fully any desire on the UR's part to reserve the right to appoint auditors and/or relevant experts to assist them in their consideration of the RP7 price control. We would ask however that the UR commits to engage with us on the potential areas for such an appointment so that we can ensure that the audit can be carried out most efficiently.

Digitalisation and Data

At paragraph 3.59, the UR proposes that NIE Networks submits its strategy for digitalisation and data along with its business plan, and sets out its requirements in this regard.

Again, we welcome the UR's recognition of this important issue. We consider investment in IT to be another aspect of transformational change in RP7 because of its importance in facilitating net zero ambitions. The digitalisation of the Energy System will be a core theme in our Business Plan and will be fundamental to delivering the 80% renewables target by 2030.

It should be noted that we have progressed significantly with preparations for our RP7 digitalisation and IT strategies, with the development during 2021 of various strategy documents which will inform our proposed RP7 business plan. We describe in detail our proposed approach in Appendix 1 of this response, and we are keen to engage further with the UR at the earliest opportunity to ensure it meets the UR's requirements.

Engagement with the UR

At paragraph 3.8 the UR states: ‘.... we will adopt a ‘no surprises’ approach as we believe this will assist all parties in developing their roles within the regulatory process.’

NIE Networks welcomes this commitment from the UR, and looks forward to engaging fully with the UR through all stages of this key regulatory process.

3.9 RP7 Timetable

At paragraph 4.1, the UR sets out its key milestones for RP7, noting that these are provisional dates which may be subject to change. Nevertheless, we consider the proposed timelines to be very challenging in light of both the scale of work to be undertaken, as well as the backdrop of unprecedented levels of uncertainty affecting related issues.

These challenges include:

- a) the scale of the challenges emerging for RP7, including a very significant step-change in investment which NIE Networks will be proposing in its Business Plan, driven by:
 - the requirements of the Climate Change Bill and Energy Strategy, including increased renewables, decarbonisation of heat and transport, and a more flexible, resilient and integrated energy system;
 - increased investment to maintain network resilience, performance and risk indicators;
 - the scale of the transmission investment programme identified by SONI; and
- b) the unprecedented level of uncertainty including in relation to the geopolitical situation (Ukraine etc.), an associated focus on energy security, inflationary pressures and supply chain challenges, energy price crisis, and the uncertain pace and detail of delivery of the Energy Strategy and climate action in Northern Ireland.

In particular, we note that the UR plans to publish its final approach to RP7 in June 2022, and is asking that NIE Networks submits its Business Plan some 4 months later in October 2022.

As highlighted above, NIE Networks considers a transformational approach is required to the design and operation of the RP7 price control to meet the particular challenges of dealing with uncertainty as to the particular pathway Northern Ireland society will take towards net zero in the period to 2030 and beyond.

Therefore, this is no ordinary price control process; the extent of the issues to be considered and scale of change required are exceptional. It is therefore important that the time and resource necessary to deliver this change should be fully considered with relevant stakeholders. In that context, we believe the RP7 timetable should allow for engagement by NIE Networks with the UR and all relevant stakeholders to develop a RP7 price control that fully meets these ambitions.

In particular, we believe that simply taking the same approach to previous price controls and relying on re-openers or undefined uncertainty mechanisms to address the anticipated changes from the energy transition would lead to a price control which would not fully deliver Northern Ireland’s requirements or the needs of customers.

On this basis, we request that the UR considers the following changes to the RP7 timetable.

The UR has previously indicated that NIE Networks should submit its RP7 Business Plan by 26 October 2022. NIE Networks proposes that this submission date be delayed by c. 5 months to 31 March 2023. This will allow for a significant period of engagement with the UR and other stakeholders in the remainder of 2022 and will, we believe, lead to a better and more informed Business Plan submission.

Clearly such a delay in the business plan submission date may have a knock-on impact on the remainder of the RP7 price review process, potentially pushing the remainder of the programme out by 5 months. NIE Networks also recognises that the UR may wish to take the opportunity to review the time allocated to later stages of the programme; for example, for the UR to consider the time currently allocated to its consideration of the draft and final determinations to ensure it makes adequate provision for the work required.

Furthermore, this review of timetable may provide an opportunity for alignment of our regulatory and financial reporting year. Currently the regulatory year and the financial year⁵ for NIE Networks are different. This leads to duplication of effort across a variety of workstreams which could potentially be addressed if the regulatory year ended in December.

We do recognise that a short delay to the submission of the RP7 Business Plan can be seen to delay commencement of the activity required to meet the needs of the Climate Change Bill and the energy transition. We have however worked with the UR to develop a Green Recovery programme which prioritised investments required for Low Carbon Technologies, accelerating their deployment during the period to March 2024. We are committed to working with the UR and other stakeholders to identify and accelerate other necessary investment required in 2024 and 2025 to ensure there is no untoward impact on Northern Ireland's net zero ambitions.

⁵ Regulatory year is April to March; financial year is January to December.

APPENDIX 1

NIE NETWORKS' APPROACH TO DIGITALISATION, DATA AND CYBER SECURITY

Response to paragraph 3.59

NIE Networks commenced preparation for its RP7 digitalisation and IT strategies during 2021 with the development of various strategy documents which all feed into the proposed investment plan. These documents include:

- **Digital Strategy:** This is an overarching document which describes NIE Networks' planned digital transformation journey during the remainder of RP6 and RP7. The strategy considers external and internal stakeholder requirements to identify the demand for digital change and develops the strategic vision, digital change culture, and the technology and data needed along the digital journey to meet that demand.
- **Data Strategy:** This is a supporting document which sets out in more detail how NIE Networks will collect, store, manage, share and use data to meet its business goals and commitments.
- **DSO Strategy:** This is a supporting document which sets out in more detail NIE Networks' DSO Vision and roadmap including: plans to extend network visibility and controllability; customer and commercial implications; future market operability; and system and data implications. The strategy also sets out targets for the DSO journey and how progress will be measured.
- **IT Strategy:** This is a supporting document which sets out NIE Networks' approach to IT delivery over the RP7 period. This includes: how IT will contribute to success of the organisation (Demand for IT); how IT is governed and managed (Control of IT); and an outline of the technology roadmap, IT sourcing strategy and the internal resources and capabilities needed to deliver the IT Strategy (Supply of IT).
- **Cyber Strategy:** This is a supporting document which sets out how NIE Networks plans to enhance its cyber security position over the course of RP7 including how to meet the new challenges created by the DSO transition and open data. The strategy sets out how the planned initiatives are linked to meeting its NIS Directive obligations.
- **Cloud Strategy:** This is a supporting document which sets out the current role of cloud computing within NIE Networks and how that role will develop during the RP7 price control period. It is intended to be used as a launching point for all cloud related activities during the period including architecture, assessment and procurement, migration and operations. The strategy document considers the RP7 business objectives which are likely to drive cloud adoption during the period and develops a set of cloud principles which will be used to drive implementation.

The main submission document will be the **RP7 IT & Digital Transformation Plan**. This will describe in detail the programme of work which will need to be progressed during RP7 to deliver the strategy objectives described in the documents above. The work programme will also be clearly linked to NIE Networks' RP7 Commitments. The various strategy documents described above will be submitted along with the RP7 IT & Digital Transformation Plan document.

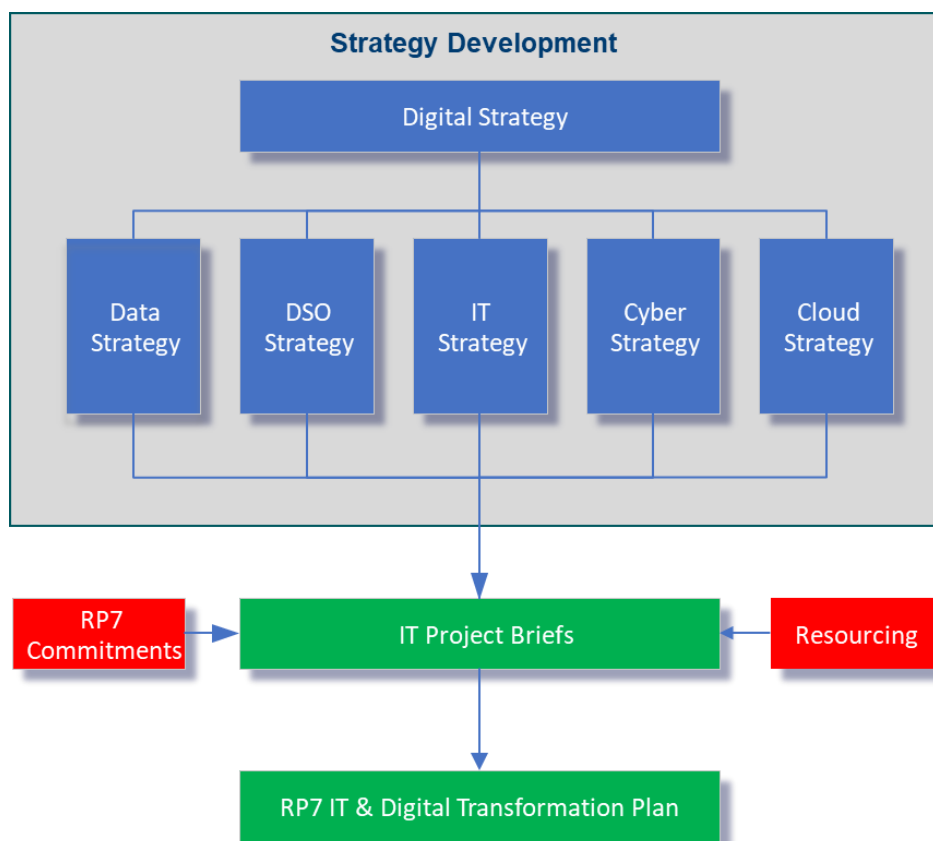
The document will include a detailed, phased Investment plan split into several programmes of work:

- **A Secure and Stable IT Environment** – cyber, infrastructure and applications upgrade projects
- **DSO Data** - projects which will deliver the data needed for DSO
- **DSO Transition** - projects to implement DSO capabilities
- **Digital Transformation** - Customer and Employee related digital initiatives
- **Enterprise Resource Planning** - projects required to achieve S/4 HANA migration plus other supporting projects
- **Sustainability** - projects to deliver sustainability commitments

The RP7 Plan will document the internal and external resource requirements of the work programmes over the course of the price control period and will present the forecast Capex and Opex associated with the IT Investment Plan.

Detailed Project Briefs will be appended to the RP7 IT & Digital Transformation Plan for each of the proposed initiatives which will describe: the business rationale for the investment including anticipated benefits; options considered; the proposed delivery approach; the link to NIE Networks' RP7 Commitments; assessment of the risks of not proceeding; and details of the project costs and duration.

We believe that this approach will provide all of the information requested by the UR under paragraph 3.59 and will facilitate the assessment of the IT submission.



Response to paragraphs 3.103 and 3.104

As described in our comments on paragraph 3.59, NIE Networks has developed a Cyber Security strategy document which sets out its plans for RP7 to meet the requirements described in paragraphs 3.103 and 3.104. The RP7 IT & Digital Transformation Plan will provide a detailed description of the projects proposed to deliver the strategy.