



Annual Report 2021/2022





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Combined report of the Northern Ireland Authority for Utility Regulation (the Utility Regulator).

The Utility Regulator has decided to produce a combined energy and water and sewerage report in accordance with Article 5(5) of the Water and Sewerage Services (NI) Order 2006.

Laid before the Northern Ireland Assembly in accordance with Article 5(1) of the Water and Sewerage Services (NI) Order 2006 and Article 6(1) of the Energy (NI) Order 2003 by the Department for the Economy.

Under Article 6A of the Energy (NI) Order 2003 (as amended) the Utility Regulator is obliged to prepare an annual report in relation to the activities it has carried out in the preceding 12 months in its capacity as a designated regulatory authority for Northern Ireland. This report shall include a general survey taken and steps achieved by the Utility Regulator in the performance of its functions under Article 37 of the Electricity Directive 2009/72/EC and Article 41 of the Gas Directive 2009/73/EC.



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Foreword



After a year when the Covid-19 pandemic made a considerable impact on our work, along came the challenge of energy prices. Northern Ireland's energy consumers, like those across other parts of the UK, Ireland and Europe, experienced a series of unprecedented price increases. Extraordinary wholesale cost pressures drove these prices upwards. As a regulator, we applied our expert scrutiny to ensure that any price increases were justified. We also worked across government and industry to try and find ways to mitigate, in part, the impact of the energy price increases on consumers.

We all hope that high energy prices will subside, in time. The current cost-of-living crisis and affordability play into long-term strategic considerations for consumers. The Department for the Economy's energy strategy, published last year, recognised the importance of affordability. The new strategy is a welcome development for Northern Ireland's energy future.

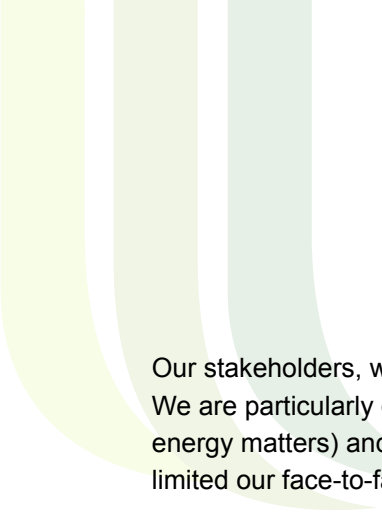
I am also pleased that there has been further progress during the year towards meeting our Corporate Strategy 2019-2024 objectives.

DfE's energy strategy has a decarbonisation focus. We are undoubtedly at a critical strategic juncture in reaching the net zero carbon target. The Northern Ireland Assembly approved a Climate Change Act in March 2022. We think that it is vital that consumers are engaged in efforts to promote decarbonisation. By enabling a low carbon future, we have a contribution to make to decarbonisation while ensuring that consumers see the benefits.

We have a track record of facilitating investment in renewables, which has supported the achievement of the Northern Ireland Executive's generation from renewables target. The transition to a low carbon future is underway and we have been at the forefront of enabling this. For example, we have authorised investments in infrastructure to support electric vehicles, and have facilitated engagement on biomethane injection into the natural gas network.

Our focus is also on enabling modern 21st century networks that benefit consumers. We regulate utilities worth billions of pounds and our regulatory oversight provides the opportunity to determine improvements in utility networks at the lowest cost to consumers. We were delighted to complete one of our biggest price control reviews during the year, for Northern Ireland Water. Our determination enables a substantial boost in investment in the water and sewerage infrastructure for years to come, subject to the allocation of adequate funding.

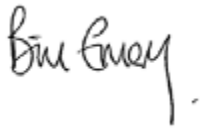
Keeping the lights on, and providing a reliable water and gas supply to homes and businesses, remains vital. We were pleased that the gas transportation agreement, to enable ongoing direct access to the gas market in Great Britain, was concluded. The effectiveness of the Single Electricity Market in facilitating a stable electricity supply to Northern Ireland's consumers is proven.



Our stakeholders, who work with us, remain critical to helping us deliver on our commitments. We are particularly grateful for the continued support of the Department for the Economy (for energy matters) and the Department for Infrastructure (for water matters). While Covid-19 limited our face-to-face engagement opportunities, our Board continued to meet stakeholders.

We continue to work closely with other government departments and industry to protect consumers following the UK's departure from the European Union. We have continued to operate effectively, despite the ongoing impact of Covid-19.

Finally, I would like to place on the record my thanks to Board colleagues for their commitment and valuable contributions during another busy year. The Board and I have been supported by a staff team who have performed impressively during a very challenging year.



Bill Emery
Chairman

Chief Executive's report



Unfortunately, over the last nine months households and businesses have experienced a global price shock in energy prices of a scale not seen since the oil crisis of the 1970s. A combination of Russia's invasion of Ukraine, and post Covid-19 increases in energy demand, have caused the price pressures that we continue to face today.

With household finances under acute pressure, we have undertaken a significant amount of work to transparently explain the reasons and outlook for energy prices. This has been done to highlight the likely price implications for business and household budgets, and to give government the evidence to be able to make decisions about additional support for consumers. This work with government departments and the Consumer Council for Northern Ireland has helped pave the way for the introduction of direct government financial support for vulnerable energy consumers in Northern Ireland, over the 2021/2022 winter.

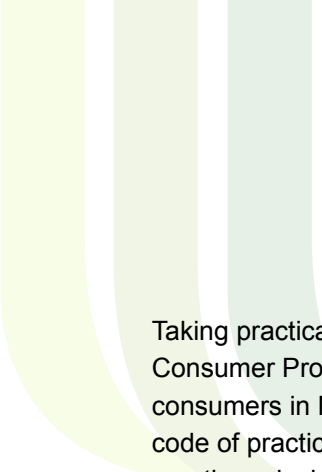
Last year also saw the UN Climate Change Conference (COP26) in Glasgow, which was aimed at stopping dangerous climate change. At a local level, this has been supported with the publication of the Department for the Economy's (DfE) Energy Strategy, which sets out a pathway to achieve net zero energy and affordable energy by 2050. We have worked closely with DfE, and will continue to support this strategy, to ensure it is a success. At the heart of DfE's Energy Strategy is developing policies that enable and protect consumers through the energy transition.

Our work is focused on protecting consumers by encouraging informed choice, fair outcomes, and promoting competition. The Single Electricity Market continues to provide effective competition through a series of capacity auctions and facilitating renewable generation, which is placing a downward pressure on wholesale electricity prices.

Following the UK's departure from the European Union, we continued to engage with government and industry on post-Brexit trading arrangements between Great Britain and the island of Ireland. We launched a call for evidence on our supply licences to facilitate retail market innovation and advanced our price control review of gas supply companies.

Correctly understanding the needs of consumers in Northern Ireland is central to us doing the best job possible on their behalf. Our research on the impact of the energy transition on consumers was an important contribution to informing DfE's energy strategy. In addition, we continue to gain crucial insights on both the behaviour of domestic and non-domestic consumers through our monthly tracker research.





Taking practical steps to protect consumers is also critical to our work. During the year, our Consumer Protection Programme, which focuses on protecting the needs of vulnerable consumers in Northern Ireland, has been updated. We consulted on the domestic marketing code of practice. For the first time, we developed proposals to identify and establish best practice principles and measures that utility companies should implement to identify, support and protect consumers in vulnerable circumstances. Finally, when Bright Energy exited the market in February 2022, we ensured that their customers' electricity supply was unaffected.

The future needs of Northern Ireland's energy system are critical to the energy strategy and we have a key role in enabling utility networks to meet the needs of the future. We apply our expert scrutiny on behalf of consumers to provide the funding for tomorrow's energy and water networks. One of our biggest price control reviews, for Northern Ireland Water, concluded and saw over £2 billion of funding approved. We are committed to supporting the Department for Infrastructure's "Living with Water" programme that supports economic growth through an integrated approach to drainage and wastewater infrastructure. Our gas transmission (GT22) and gas distribution (GD23) price control proposals were published in December 2021 and March 2022 respectively.

Safeguarding electricity security of supply continued through the effective operation of the Single Electricity Market. Following the completion of the price control review, we introduced an evaluative framework for the electricity system operator, SONI. Our review of the company's governance arrangements moved forward with a consultation on licence modifications to give effect to review outcomes. Following a significant level of engagement, a new transportation agreement, enabling ongoing direct access to the gas market in Great Britain, was published in September 2021.

We will continue to work with industry, government and the third sector to ensure our energy and water future is greener, more resilient, and protected from future price shocks. The proportion of generation from renewables reached 41.3% during 2021. We approved additional investment to support the roll out of the electric vehicle infrastructure and facilitated engagement on biomethane injection. We contributed to the Northern Ireland Audit Office's NI Renewable Obligation investigation.

We increased the level of engagement with the NI Assembly and have actively provided support through advice, briefings for MLAs and responding to queries and questions. We have also commenced work with the Department on ensuring that our legislative vires will be fit-for-purpose in a new low carbon economy.

The Covid-19 pandemic has continued to have an impact on our work. We worked closely with government, industry and other representative organisations to protect consumers. Our enhanced monitoring arrangements, to assess energy supplier financial risks and any signs of customer distress, continued. Although public health restrictions recently eased, our staff worked remotely and have continued to deliver.

We continued to aim to be a best practice regulator. Our UR People plan sets an integrated approach to supporting and developing our staff. We were awarded the initial bronze accreditation by Diversity Mark NI, and our staff completed our second Best Companies survey in which we were awarded 'One to Watch' status. We commenced a leadership programme for the senior leadership team and managers. An extensive staff engagement exercise on future ways of working was completed in March 2022.

Finally, I would like to thank the Board and all the staff at the Utility Regulator for their support during what has been an unprecedented year. I am full of admiration for what we have achieved together in what has been a difficult and challenging year.



John French
Chief Executive