

## ONE YEAR EXTENSION TO NIE NETWORKS' RP6 PRICE CONTROL: PROPOSED LICENCE MODIFICATIONS

NIE Networks' Response to the UR's Consultation Paper of 25 January 2023

24 February 2023

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NIE Networks welcomes the opportunity to respond to the Utility Regulator's (UR) consultation on its proposed modification of NIE Networks' electricity distribution and transmission licences with regard to the proposed one-year extension to the RP6 price control (to 31 March 2025).

In summary, NIE Networks is broadly supportive of the UR's proposals, subject to the comments provided below in respect of certain cost allowances<sup>i</sup>. We are also content that the UR's proposed changes to the detail of the licence coding have the intended practical effect required to extend the RP6 price control and facilitate the setting of tariffs for the RP6 extension year.

- Need to extend RP6

***NIE Networks supports the need to extend the RP6 price control.*** This will help to ensure additional time is available to deliver a transformational price control for the RP7 period that is capable of meeting the particular challenges brought about by the requirements of Northern Ireland's Climate Change Act and Energy Strategy. Moreover, 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.

- Scale of Network Investment

NIE Networks' RP6 price control was developed before Net Zero targets were envisaged in Northern Ireland, so the UR's 2017 determination for RP6 did not reflect the scale of network investment required to deliver 2030 targets. Therefore, as an interim measure, NIE Networks secured UR approval in 2022 for additional regulatory funding for the RP6 period to implement its Green Recovery programme, as well as other network investments to facilitate the uptake of low carbon technologies over the remainder of RP6. ***NIE Networks welcomes and supports the UR's proposal to extend funding for these network investment programmes for the RP6 extension year.***

- Network Investment Costs – real price increases

Over the past 12/18 months, NIE Networks has been facing significant cost pressure from both contracted labour resources and material suppliers as a result of labour and material shortages as well as increases in the cost of fuel, transportation and underlying raw materials. We have provided the UR with some specific examples of recent cost pressures being experienced against established RP6 allowances.

In its consultation, the UR proposes an allowance for the RP6 extension year in recognition of above-inflation cost increases, however, the amount proposed by the UR represents less than half of what NIE Networks has assessed as being required. In particular, the UR proposes making minimal allowance for cost pressures impacting materials such as transformers, cables and other plant and equipment used in construction of the electricity network. This

proposal runs contrary to evidence of significant above-inflation rises in international metal prices during the RP6 period to which NIE Networks is particularly exposed.

***Whilst welcoming the UR's recognition of the need to provide allowances for real price increases in the RP6 extension year, NIE Networks considers the quantum of allowance proposed by the UR is insufficient to meet requirements. NIE Networks has engaged further with the UR during this consultation period and has provided additional information to evidence the need for a higher allowance, in particular with regards to materials costs which we expect to add at least £3m to our cost base in the RP6 extension year. We would ask that the UR gives this information due consideration and accordingly, increases the allowance for real price effects in the RP6 extension year.***

- Network Investment Costs – civil works costs

As discussed with the UR previously, NIE Networks notes that the UR has not made allowance for the cost of civil works associated with primary substations. We have understood from the discussions with the UR that this was an error. ***We would ask that the UR makes provision for these costs (£1m) within the confirmed network investment allowance for the RP6 extension year.***

- Operating Costs

The scale of network investment required in RP7 will represent a significant step-change compared to RP6. Whilst the RP7 price control is not due to commence until April 2025, NIE Networks is already putting in place necessary measures to transform its business capacity to deliver this step-change in RP7 requirements. This includes the addition of more than 200 staff to NIE Networks' workforce over the last two years to build capability in key areas, including substantial investment in recruitment, training and safety programmes. Apprentice and Graduate recruitment programmes have been expanded to begin to build increased capability for future years. These and future initiatives will progressively add to NIE Networks' operating costs over the remainder of the RP6 period (including the extension year). ***In light of this expected upward trajectory in operating costs which are fundamental to ensuring we can be ready to meet the Climate Change Act requirements to be addressed in RP7, NIE Networks is disappointed with the UR's proposal to cut the operating cost distribution allowance by 8% (£4m) for the RP6 extension year, which we consider is both unwarranted and counterintuitive. We would ask that the UR reconsiders its proposals in this regard.***

- Pension Costs

The UR proposes making allowances to provide for further contributions by the Company in the RP6 extension year against the historic pension deficit. ***NIE Networks is content with the UR's proposed pension deficit allowances.***

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<sup>i</sup> Allowances for operating costs and real price increases.