



**INTERIM CORPORATE
STRATEGY
1st April 2007 – 31st March 2008
and beyond**

May 2007

Summary

This document sets out the Utility Regulator's interim strategy for 2007, as well as describing our proposed approach to developing a rolling three-year strategy to be published for consultation in late 2007.

The second section sets out an interim strategy for the coming year. This covers our intended approach to our work, our intention to create a "fit for purpose" organisation, and our approaches to sustainability, competition and regulatory style.

The final section highlights key themes for strategy development leading to a three-year strategy. These include sustainability; metering; and how to regulate non-competitive markets so as to stimulate competition. It also explains that we will consider the themes of social action/fuel poverty, and of accountability and efficiency, in taking forward a range of strategy development.

Preparing the strategy

1. 2007-2008 marks a big step forward for the Authority and the start of a new era of utility regulation in Northern Ireland. On 1st April we took responsibility for regulation of water utilities, and we continue to prepare for the start of the single electricity wholesale market in November. We have a new name and brand: we took the opportunity of our legal name changing to the Northern Ireland Authority for Utility Regulation to remove any reference to individual industries and to refresh our visual identity. On a day to day basis we will be known simply as the Utility Regulator.
2. As part of our December 2006 consultation on our Forward Work Programme (FWP) for the coming year, we decided to include issues relating to the Corporate Strategy. This document sets out a one-year Interim Strategy, and it is our intention to publish for the first time before the end of this year a rolling three-year Strategy. Moreover, we recognize that in some cases we will be taking a longer view of developments, and a key aim of our strategy formation will be to be nimble and flexible enough to respond to change. So the purpose of this year's Interim Strategy is to indicate the broad direction of travel that informs individual projects selected for the Forward Work Plan, and it is the first step in a longer journey.
3. In the consultation document we set out a range of risks that face the parties to whose interests we have regard (broadly, customers and regulated companies); the strategic background to our planned work including suggested priorities for strategy development over the next 3 years, as well as intended work priorities for 2007/08 and approaches to accountability and demonstrating Value For Money in our work.
4. Our Forward Work Plan has recently been published in a separate document (available from our web-site: www.niaur.gov.uk). We received many useful comments on our draft FWP issued last December, and held a number of workshops with stakeholders on the key issues. The main comments received under the consultation are outlined in the FWP document, together with our views on these comments.

5. Our FWP consultation listed several possible themes for future strategy development. Of these, “sustainable development” and “fuel poverty/social action” were given priority by most respondents. That said, each of the themes had some support. Respondents noted many issues which we might add to possible consultation themes in the coming 1-3 years (on top of those already identified). We feel that many of these will be picked up by inclusion within the remit of the consultations anyway, or through normal workstreams. We will keep our prioritisation under review to consider in light of resources available whether other themes should be prioritised.
6. Finally, our Forward Work Plan dealt with several issues concerning the organizational context within which our strategy will be delivered. These included:
 - **Accountability and milestone indicators.** Our FWP noted that the Utility Regulator must show value for money for the resources we spend and demonstrate that the impact of our work is proportionate and justified. It might be desirable to identify some overall indicator of the impact of our work on consumers and regulated companies: looking for instance at prices or investment levels. However, we are of the view that there are major practical difficulties with this approach at this point. Many of our decisions take into account the long-term development of the industry and their impacts cannot be measured in the first few years. In many cases our work is only one factor influencing the overall out-turn, and not the most important, and so assessments would need to be on an “all other things being equal” basis. We are concerned that such assessment would therefore be complex and resource-intensive to carry out, and in any case the findings would be ambiguous or contestable. Therefore we consider that it is more sensible for us to set out indicators of process that can demonstrate where our work is being managed efficiently and effectively. The most important of these we believe are milestones and budgets, and we have included detail on these within the FWP document for all work areas within NIAUR.

- **Our planned approach to Consultation.**

(i) Duration of consultation: Our FWP discussed the need to balance extended timescales for consultation with the need to maintain progress and momentum on key work areas and timescales for consultation laid down under relevant legislation. Our FWP concluded that in respect of major policy development, we should seek to consult for a minimum of 12 weeks and allow for written consultation at least once during the process. This of course does not apply to normal regulatory matters (for example proposed enforcement orders) for which prescriptive consultation times and procedures are stipulated by statute - often, by law, subject to much tighter consultation periods: periods of 21 or 28 days. We interpret this statutory intent as reflecting the fact that a great deal of typical regulatory business needs to take place in relatively swift time frames – to allow wrongs such as licensee breaches of duty to be put right quickly, and to improve the functioning of the licence framework as and when circumstances require.

(ii) Information to be included in consultation: Our FWP concluded that we will attempt to ensure that consultations are conducted in a consistent, transparent, clear and timely manner. We will endeavour to adopt a uniform style to our consultation documents. We will seek to engage early with consultees to ensure that consultation exercises have addressed the relevant issues. Where appropriate, we will seek to use various forms of communication with stakeholders (e.g. stakeholder meetings, surveys, public events, industry workgroups) to ensure that consultations have adequately addressed the relevant issues.

(iii) Accessibility of Consultation. Our FWP noted our intention to give more consideration to the accessibility of our consultations going forward. This follows on from a review of our website and external communications. We appreciate the potential need for production of this report in various formats (e.g. braille; availability for textphone) and language versions should the need arise going forward. We will do so on demand as future needs dictate.

Interim Strategy

7. The energy and water sectors are vital to the NI economy, its environment and its people. We are aware of the importance of our role to the future of Northern Ireland. Our experience shows that we will be most effective if we are transparent in, and accountable for, our actions; flexible and innovative without compromise to our basic responsibilities; and good at communicating, being prepared to listen and learn. We will be focused on outcomes which are beneficial, even if the paths are sometimes hard and difficult decisions need to be taken. We need to develop these approaches into a clear articulation of mission and values. We will be working on this, particularly with our own staff during this year.
8. In the light of our growing responsibilities, we are already embarked of a restructuring and expansion of the teams of our staff providing the services. We aim to balance many different needs: we must retain all that is so good in our inheritance, but respond to the new challenges with different ways of working. We are focused of the outcomes in each utility sector, but we are working to avoid the creation of closed 'silos' of thinking. We have a unique opportunity in the UK as a utility regulator, to benefit from horizontal learning.
9. We are working on the development of HR and organizational strategies which will be tailored to the requirements of our work. Our aim to be an organisation "fit for purpose" for future challenges. We will allocate resources in line with work priorities. We will ensure our recruitment and employment policies make us a good employer, attractive to a wide range of individuals with the skills we need. We will not only ensure the propriety and regularity of expenditure, but will also endeavour to deliver good value for money, and be able to demonstrate this.
10. The core of our strategy must always be our statutory duties. These are complex, but ultimately are driven by the interests of utility consumers. We have direct duties to current consumers. We also have duties to secure the financial, environmental and social sustainability of the utility companies, because this is in the longer-term interests of consumers.
11. Our duties are to future consumers as well as today's, and we should ensure

that today's utility industries are not undermining the well-being of society in the future. We will work to ensure that the costs (including environmental costs and other external factors) are allocated appropriately to utility services so as to send correct economic signals. We will also aim to ensure the costs of avoiding, and adjusting to the implications of, environmental change are shared fairly between present and future customers and CO2 owners.

12. Competition is one main method of securing consumer benefit, and is often a better means to this end than regulation. However, its appropriateness is an empirical matter to be assessed case-by-case. Providing customer choice can be a means to strengthen customer confidence in the utility industries, and can therefore be an important element in promoting the development of the utility industries.
13. Competition is very immature in most sectors of the NI utility industries, and in this context our roles in regulating monopolies and limiting the exercise of dominance remain of great importance. This means controlling prices. It also means prompting monopolies to provide customers' desired standard of service for the appropriate cost. We will always seek to prompt utility companies to be innovative, but we will in general be cautious before encouraging monopolies to take risks where costs are ultimately borne by customers, or to play roles that would be better fulfilled by the market.
14. We will work where possible through partnership. Our collaboration with CER in the Republic of Ireland is of particular importance. We also acknowledge the importance of the 2004 Ministerial Framework Agreement which indicated the importance of North-South collaboration in the overall direction of NI energy policy. Our partnership with the Consumer Council for NI is a key relationship, given substantial overlap between our mission and the Council's.
15. We seek to comply with good regulatory practice, notably as embodied in the Better Regulation Task Force's five principles (proportionality, accountability, consistency, transparency and targeting). We will be creative but will adopt good ideas developed elsewhere, where appropriate. We consult on all substantial decisions, tailoring our consultation style to the topic. Stakeholders may not always like or agree with our decisions, but they should always understand our rationale for them. We will work openly, using the

media to communicate with the general public on topics of wide interest, but will not use the media as an alternative to direct dialogue with stakeholders.

Developing the Longer Term Strategy

16. As stated above, we see value in building on this year's interim strategy to develop a multi-year strategy to guide the production of one-year Forward Work Plans. Given our new management team (at Board and executive levels), we intend to carry forward strategy development over the course of 2007-8, with a view to publishing a synthesis document in December 2007.
17. We consider that developing a strategy around what a Utility Regulator's role in sustainable development should be, to be one of our first priorities for thematic development. This is a key area of high current focus and rapid change given the climate change challenges. The role of the regulator in this area requires some consideration in a structured and focused way. This area was also given priority in the consultation responses. Questions we might consider include: What should a Utility Regulator's role be and what should our main priorities and activities be centred on? Where can we find and learn from best practice? How do the activities/priorities we would wish to pursue fit with our statutory duties and legislative underpinning? What levers can we best pull together with other relevant stakeholders to maximize our impact? How does the metering policies of licencees and our approach to metering sit with sustainable aims and objectives?
18. Alongside sustainable development, we consider that our strategy around wholesale and retail markets should also be a second theme. The challenges here are: to identify what approach to regulating currently non-competitive sectors is most likely to promote competition; and to identify barriers to entry and how they can be reduced. Much work is underway or already coming over the horizon in terms of electricity and gas market opening and the issues here will become more important as markets continue to develop and mature and competitive forces gather pace. The Utility Regulator needs to be ready and prepared for allowing this to take place and for putting in place an effective and timely regulatory environment for these developments.
19. A third main theme that we will try to tackle this year will be consideration of metering in a cross-utility context. Metering is a key enabler for tariff

innovation, controlling use, etc. We will aim to consider metering best-practice and its application in the NI regulated utility sector, including issues around the role for “smart” metering. We will aim to consider cross cutting metering issues and the potential for sharing of ideas, economies of scale, tariff innovation, etc.

20. There are important overlaps between these main themes. These will be borne in mind during the year and brought together in the first rolling Three Year Strategy.

21. The above themes are our planned priorities and underpin key parts of our Forward Work Plan. Our ability to optimize delivery of them will of course depend on us having in place the appropriate staff resources and skill set, alongside the requisite HR/personnel policies and strategy. We are seeking to put all these into place as a matter of priority.

22. Whilst we consider at this point that these three themes should be our early strategic priorities in the coming months, two others are worth mentioning at this point.

- The theme of fuel poverty/social action could be affected by many policies adopted to meet a range of duties. It may prove to be the case that, rather than making it the subject of a stand-alone consultation, we should build consideration of fuel poverty/social action as a factor into each of the strategy themes we develop. (For example, when considering sustainable development, part of that strategy development should consider how our sustainable development strategy/proposals impact on fuel poverty/social action aspects of our remit). We will consider the best way forward here as we move forward with our strategy development.
- Second, the theme of efficient and effective regulation and HR/organizational strategy is one to which the Utility Regulator and its new Board are already giving serious thought. As noted elsewhere in this document, organizational change and growth are already being taken forward and we are moving towards developing detailed work plans, timescales, targets and indicators of progress. Given the changes already in train, we consider it prudent to move ahead with the current

restructuring programme and consider looking at further best-practice refinements etc. as those changes bed in and new senior management resources and processes are in place.