



Annual Report  
**2017-2018**



## Annual Report 2017-2018

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 UR 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. This report is due to be sent to the Department, the European Commission and the Agency (ACER) by 1 July of each year. Information in this annual report is intended to also fulfil the Article 6A obligation.



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# 1. Chairman's foreword



We are nearing the end of our current corporate strategy period and it is pleasing to see the real and significant progress towards meeting the targets we set ourselves back in 2014. In everything we do there is a balance to be struck between protecting the short- and long-term interests of consumers.

Our regulation of utilities is focused on promoting successful enterprises because we believe this will be reflected in the service they provide to consumers. A key regulatory tool that we have is our price control reviews. Last year was particularly significant given the conclusion of our biggest price control, for NIE Networks. This set out a six and a half year price control aimed at supporting prudent investment in infrastructure, improvements in asset management, providing performance incentives and promoting innovation at the lowest possible cost to consumers.

Regulation plays an important role by facilitating new developments that benefit not just the consumers affected but the economy and society as a whole. In the last year a major milestone towards the new all-island wholesale market, the Integrated Single Electricity Market (ISEM), was reached with the first capacity auction in December. We believe in the benefits of access to natural gas and have a track record of growing the natural gas industry in Northern Ireland. The further progress towards bringing natural gas to county Down and Gas to the West is a further vote of confidence in the natural gas industry in Northern Ireland. The Department for Infrastructure's decision on the north-south electricity interconnector is a welcome development and one which we have advocated for constantly. We also see the continuing progress made by NI Water in providing water and sewerage services under our regulatory regime.

Of course our work is not just about the medium to longer term. Rising international wholesale energy prices led to increases in electricity

bills. There were also gas tariff increases in the Greater Belfast and Ten Towns areas. Any increase in regulated prices is regrettable for households and businesses and our job is to remain vigilant on tariffs and act if things change to allow a further price review.

We value the engagement and support of those who work with us. While there is currently no NI Assembly, we are conscious of the need for us to remain accountable and continue to work within energy and water policy frameworks. We are grateful for the support of the Department for the Economy (DfE - in respect of energy) and the Department for Infrastructure (DfI - in respect of water). The board has met with and visited industry, statutory and consumer stakeholders during the year and is grateful for this engagement. With some uncertainty in the wider environment, such as on the impact of Brexit, we will continue to work closely with all stakeholders.

As ever, during another busy year, it is important to recognise the commitment of board colleagues. My board colleagues and I are also indebted to everyone who works for the Utility Regulator for their dedication and hard work.

A handwritten signature in dark ink, appearing to read 'Bill Emery'.

Bill Emery  
Chairman



## 2. Chief Executive's report

In another demanding year, when the absence of the NI Assembly and the uncertainties posed by Brexit dominated the strategic landscape, we concluded several of our most significant projects and workstreams. At the same time, we increasingly looked to the future with initial work on our new Corporate Strategy.

Our focus continued to be on our corporate strategy objective of promoting efficient and effective monopolies. We completed our NIE Networks price control review, providing around £667 million of investment and earmarking innovation funding for the future. Firmus Energy Limited and SONI submitted appeals on our price control decisions to the Competition and Markets Authority (CMA). Our defence of the consumer interest in both CMA appeals reduced the costs that consumers would otherwise have had to bear. One example of this is our mid-term review of NI Water's PC15 price control, which concluded that the company had outperformed efficiency targets while also delivering against its service level outputs.

On gas connections significant progress was made towards meeting our corporate strategy target with 244,000 connections achieved. Arrangements for the more efficient operation of the gas market in Northern Ireland were moved forward with the launch of a new single Gas Market Operator for Northern Ireland in October 2017.

Working with our Irish counterpart, the Commission for the Regulation of Utilities (CRU), we progressed the ISEM towards its planned delivery in 2018, albeit that the go-live date was revised to 1 October from the planned May date. The ISEM will deliver a more competitive market that ensures that consumers only pay for generation that is needed and will send clear signals for current and future investment. The innovative DS3 initiative will help optimise the use of



energy from renewables and is an important investment in the energy system of tomorrow. The future development of the network was enhanced with the introduction of contestability in network connections.

As we also facilitate investment in renewables, in line with government policy, it was positive that during 2017-18 the proportion of generation from renewables, for the 12 month period ended 31 March 2018, reached 35%. We continued to review our Consumer Protection Strategy as a basis for protecting the interests of vulnerable consumers in line with Corporate Strategy objectives.

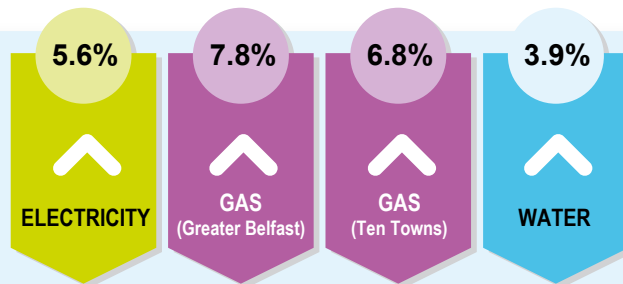
Finally, we continue to focus on our development as an organisation. I was very pleased that our support for our staff was evident with our accreditation under the Investors in People Standard. We commenced a review of our enforcement procedure and financial penalties policy to ensure they were in line with best practice. Externally our focus remained on positive engagement with stakeholders and we began a review of our corporate communications.

As ever, all of the progress and the achievements would not have been possible without a dedicated and committed staff team whose resilience and tenacity was tested throughout the year. I am also grateful for the continuing support of our Board.

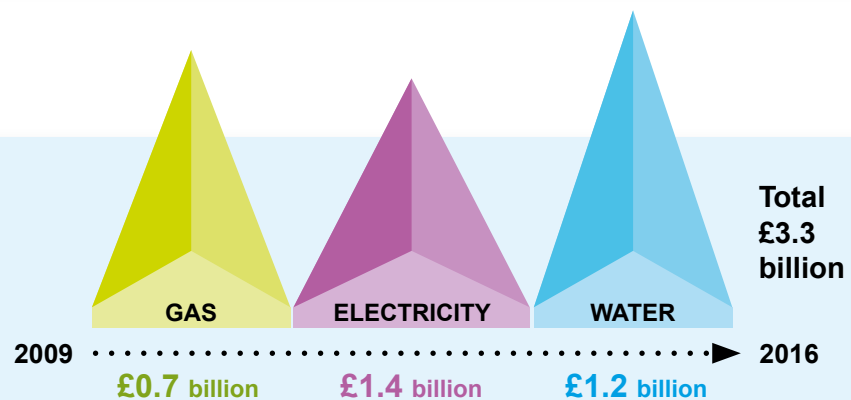
Jenny Pyper  
Chief Executive

### 3. Our year in summary

#### PRICES AND CHARGES



#### INVESTMENT IN UTILITIES



#### PROMOTING COMPETITION

- ISEM progressed with go-live during 2018
- First CRM auction took place delivering significant consumer savings
- Electricity grid connections now open to all consumers, including domestic
- First towns connected in the development of gas to East Down
- Continued to progress the DS3 project which has introduced competition for system services
- Deregulated non-domestic firmus customers between 2500-25000 therms in the ten towns

#### PROMOTING SUSTAINABLE DEVELOPMENT

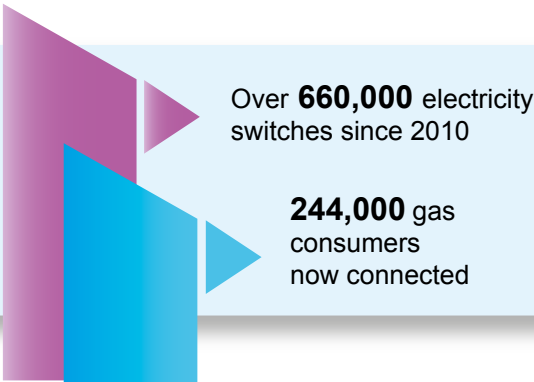




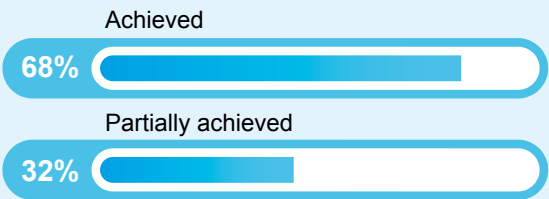
PROTECTING CONSUMERS

- Implemented year two of our Consumer Protection Strategy
- Initiated project to examine the issues in the small business energy market
- Commenced project looking at third-party intermediaries in the non-domestic energy retail market
- Developed gas arrangements to protect consumers in the event of a supplier exiting the market
- Delivered new codes of practice in energy for bills and statements and energy theft
- Launched 101 quick check scheme in partnership with consumer bodies and the PSNI
- Delivered a new code of practice to assist NI Water with developing a more effective customer service
- Supported the development of the N/S interconnector which received planning approval in January 2018

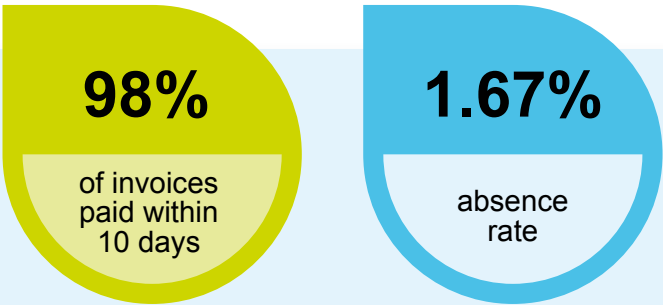
CONSUMER ACTIVITY

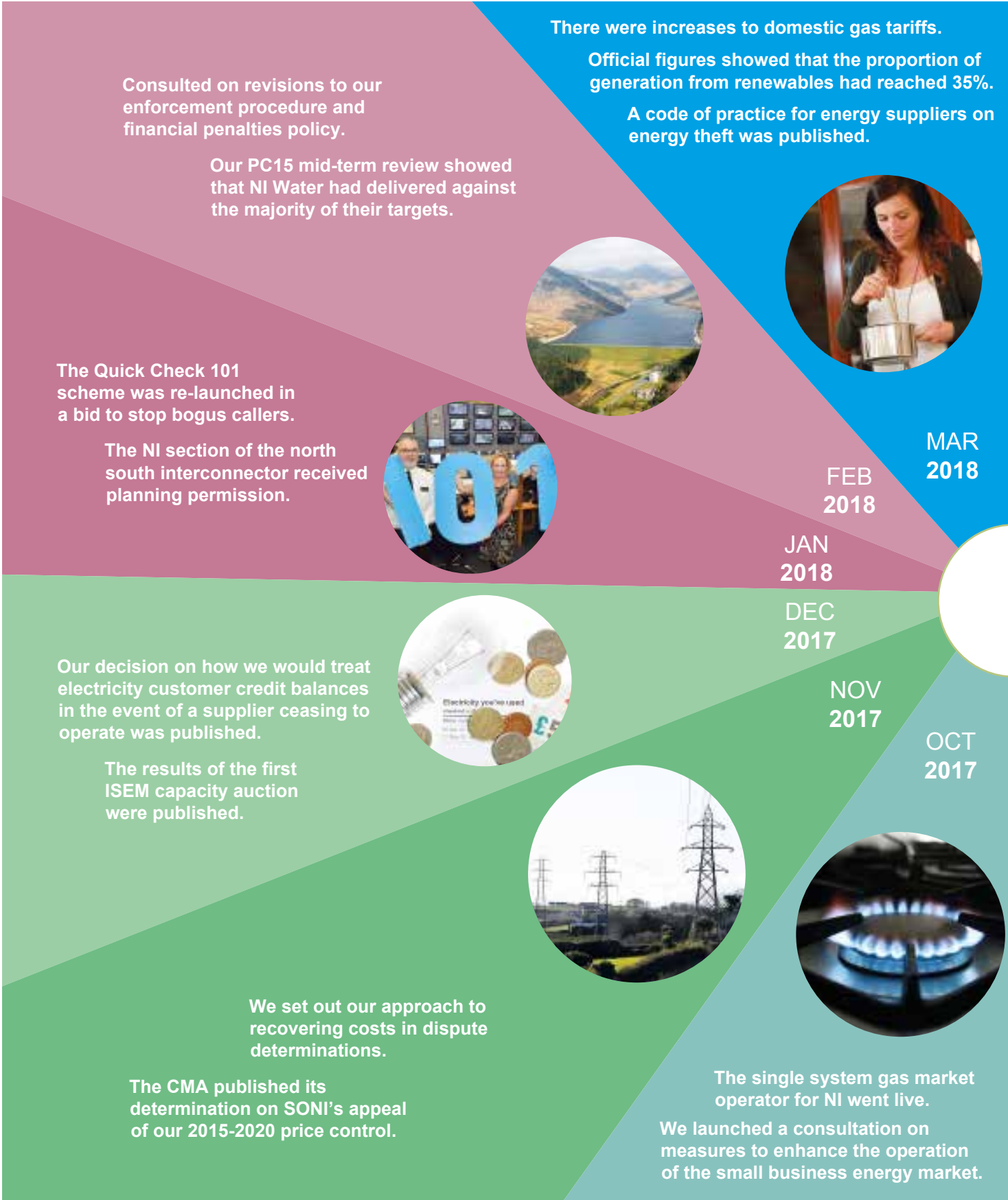


OUTCOME AGAINST OUR BUSINESS PLAN TARGETS



EFFECTIVE AND EFFICIENT REGULATOR







We launched a consultation on electricity guaranteed standards of service (GSS) for both electricity supply and distribution companies.



APR  
2017

Our mid-term review process for NI Water price control, PC15, commenced.

Our quarterly transparency report showed that the majority of electricity customers were paying prices lower than Rol and GB.



MAY  
2017

The final determination was published for RP6, NIE Network's price control for 2017 – 2024.

The CMA published its final determination on firmus energy's appeal of our GD17 price control.



JUN  
2017

JUL  
2017

We published a new code of practice for energy suppliers on bills and statements.

As part of our consumer protection strategy we launched a review of regulated companies' care registers.



AUG  
2017

SEP  
2017

The GT17 price control published for the high pressure conveyance network operators.

We launched a 'how to' guide on switching energy supplier with the Consumer Council.

Power NI announced a 5.6% increase in regulated electricity tariffs.



We published an information paper on the marketing code of practice for energy suppliers.

We took an important regulatory step towards ISEM go-live by modifying supply and generation licences.

## 4. Retail and consumer protection

### In brief

- We initiated a project to examine measures to enhance the small business energy market.
- We implemented practical initiatives as part of our Consumer Protection Strategy.
- Supplier compliance issues and investigatory work continues to be a focus for our regulatory action.
- Rising international wholesale energy costs contributed to higher consumer bills.



## 4. Retail and Consumer Protection

### Protecting consumers by making sure tariffs reflect costs

For consumers, reviewing the tariffs of regulated energy suppliers is the most visible part of our job. This affects every household in Northern Ireland (NI). We work on behalf of consumers to make sure that their bills reflect the actual cost of delivering energy to their homes and businesses.

In mid-2017 we reviewed the tariffs of Power NI (the regulated electricity supplier). This resulted in a tariff increase of 5.6%, the first increase since 2013. The main reason for the increase was due to rising wholesale energy costs. Domestic electricity prices in NI continue to be lower than in Great Britain (GB) and the Republic of Ireland (RoI).

A regulated gas tariff review was also completed for SSE Airtricity in the Greater Belfast area. We approved an increase of 7.8% in March 2018.

In the Ten Towns gas distribution area we reviewed firmus energy's tariffs and approved an increase of 6.8% in March 2018.

The gas price increases were due in part to the unravelling of a previous over-recovery of revenues. While price increases are unwelcome, the NI average standard tariff for domestic gas consumers continues to be at a lower price than comparable tariffs in RoI and at a similar level to GB.

### Promoting market opening and competition

One of our statutory duties is to protect consumers by promoting effective competition, where appropriate.

In both electricity and gas, a large share of domestic customers remain with the previous incumbent supplier. However, as the electricity market matures, the incumbent market share is gradually decreasing. Power NI's share in the electricity domestic market at end of March 2018 was 58% which compares with 61% last year.

In the Greater Belfast domestic gas sector, where there are two suppliers, market shares have remained relatively unchanged. SSE Airtricity's share in the domestic credit market is 80% and 71% for prepayment. Firmus energy



remains the only domestic supplier in the Ten Towns area.

We initiated a project, 'Measures to Enhance the Operation of the Small Business Energy Market', to examine the issues currently being experienced in the small business energy market. Following stakeholder engagement we published a consultation paper in October 2017. This set out the issues and a number of proposals that we believe will make the small business energy market more transparent. This will make it easier for small business customers to engage in the market and promote competition.

We plan to issue a decision paper later in 2018.

## Gas supply price controls

In October 2017 we consulted on the option of reducing the scope of firmus energy's price control to exclude small and medium non-domestic customers in the Ten Towns area. This was due to firmus energy no longer having a dominant position in this market segment.

Our decision to reduce the scope of the price control was published in November 2017. This meant that, as of 1 April 2018, non-domestic customers consuming between 2,500 and 25,000 therms (73,200 and 732,000 kWh) per annum will no longer be covered by the price control. They will also therefore be unable to avail of a regulated firmus energy tariff.

## Ensuring consumers energy supply is protected

In late 2017 we commenced our project looking at Third Party Intermediaries (TPIs) in the non-domestic retail energy market. In November we issued an information paper which outlined the scope of the project and potential interventions in the market that we may need to consider. This paper also included a call for evidence to gather information on the current scale of TPI activity in NI.

We plan to publish a TPI position paper, which will report on our findings as well as outline our intended next steps, in early 2018.

If a gas supplier leaves the market unexpectedly, we have developed Gas Supplier of Last Resort (SoLR) arrangements in conjunction with the natural gas industry and consumer representative groups. The gas SoLR arrangements are necessary to clarify the requirements and the process for all industry participants should a SoLR event be initiated. Necessary licence modifications to make these arrangements mandatory on all licensees will be consulted on later in April 2018.

## Our Consumer Protection Strategy

We have been implementing year two of our Consumer Protection Strategy (CPS). The CPS is a five-year (2016-2021) strategy and action plan to address the long-term needs of domestic consumers. The CPS is aimed at enhancing the level of consumer protection.

We delivered:

- a new **bills and statements code of practice** (CoP) for electricity and gas suppliers that sets out the principles and rules they must adopt when producing bills and statements for their domestic and non-domestic customers;
- a new **energy theft CoP** to increase protection for consumers, both in terms of safety issues and costs related to energy theft;
- a review of **critical care** and customer **care registers** for NIE Networks and NI Water;





- new protocols to ensure that customers feel safe when utility staff visit their home. This involved working with PSNI and the electricity, gas and water network companies and included the launch of the **101 Quick Check** scheme;
- new **educational materials** on switching;
- gas **supplier of last resort arrangements**;
- a review of the European **Consumer Check List**; and
- ongoing reviews of **major incident** protocols.

We also worked with stakeholders on the following:

- **tariff comparison** - we worked with CCNI who introduced their new online comparison tool;
- **energy efficiency delivery** - we worked with the relevant government departments in relation to energy efficiency and agreed with the Department for the Economy (DfE) that we would extend the NISEP energy efficiency scheme in order to allow time for the development of their EnergyWise scheme; and
- **best practice consumer protection** – we worked with other UK and European regulators.

We also planned a Consumer Summit for April 2018 as a way of engaging directly with stakeholders to review CPS projects and set priorities for the remainder of the strategy.

COPs developed by energy suppliers were approved in the following areas:

- payment of bills;
- the provision of services for persons who are of pensionable age or disabled or chronically sick;
- complaints handling procedure; and
- services for prepayment meter customers.

This ensures that the codes developed by suppliers meet our minimum standards for consumer protection.

We continue to work with partners on energy saving schemes, particularly the DfE and the Department for Communities (DfC). This included engagement with DfE on the development of a future energy strategy for NI, the proposed EnergyWise scheme and with DfC regarding the boiler replacement scheme and their fuel poverty scheme, 'Affordable Warmth'.

## Monitoring the retail market

We are required to keep the development of the retail energy market under review. This includes providing consumers with access to clear and easily understood information on suppliers, products, tariff and service choices.

Our existing market monitoring of the gas and electricity retail sectors means we publish annual and quarterly reports. These reports deliver transparency for both stakeholders and consumers and examine in detail essential indicators which are also used by other National Regulatory Authorities (NRAs) in Europe to monitor their retail markets.

An enhanced monitoring framework, called the Retail Energy Market Monitoring (REMM), allows us to monitor the supply markets, inform policy and protect consumers.

REMM data collection continues on track and we continue to make necessary revisions to how we monitor. In 2017 we revised the way in which we monitor supplier statements of compliance to further enhance scrutiny and to make sure plans are implemented to address any compliance issues. During 2018 we will also conduct independent audits of supplier licence compliance.



We will also begin to progress the second stage of REMM. This will involve research and actions on the publication of the data to ensure full deployment of the REMM indicators.

## **Access to consumer consumption data**

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The Energy Efficiency Directive places requirements on member states in the area of consumer consumption and billing transparency.

As part of the implementation of the directive, we have published a billing COP which suppliers must comply with.

## **Retail investigations, compliance and enforcement**

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There has been an increase in supplier licence compliance and investigatory work.

During this year we resolved two formal investigations via regulatory undertakings and charitable contributions. In both cases, the companies involved arranged an independent review of certain aspects of their regulatory compliance process.

We have also satisfactorily closed a number of informal investigations during the year and agreed alternative resolutions including charitable donations and/or customer goodwill gestures. Entering the 2018-2019 period we are undertaking one formal investigation and have initiated a specific compliance review project with another supplier.

## **Dealing with customer credit balances after an electricity SoLR event.**

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During the SoLR event of December 2016, Open Electric ceased trading and their customers were transferred to Power NI.

One of the issues that required our attention in the aftermath was how to deal with customer credit balances. These balances occurred when customers had prepaid for their electricity, lodged deposits with suppliers or paid direct debits in excess of metered bills. Under normal trading rules, customers would be unlikely to receive their money back.

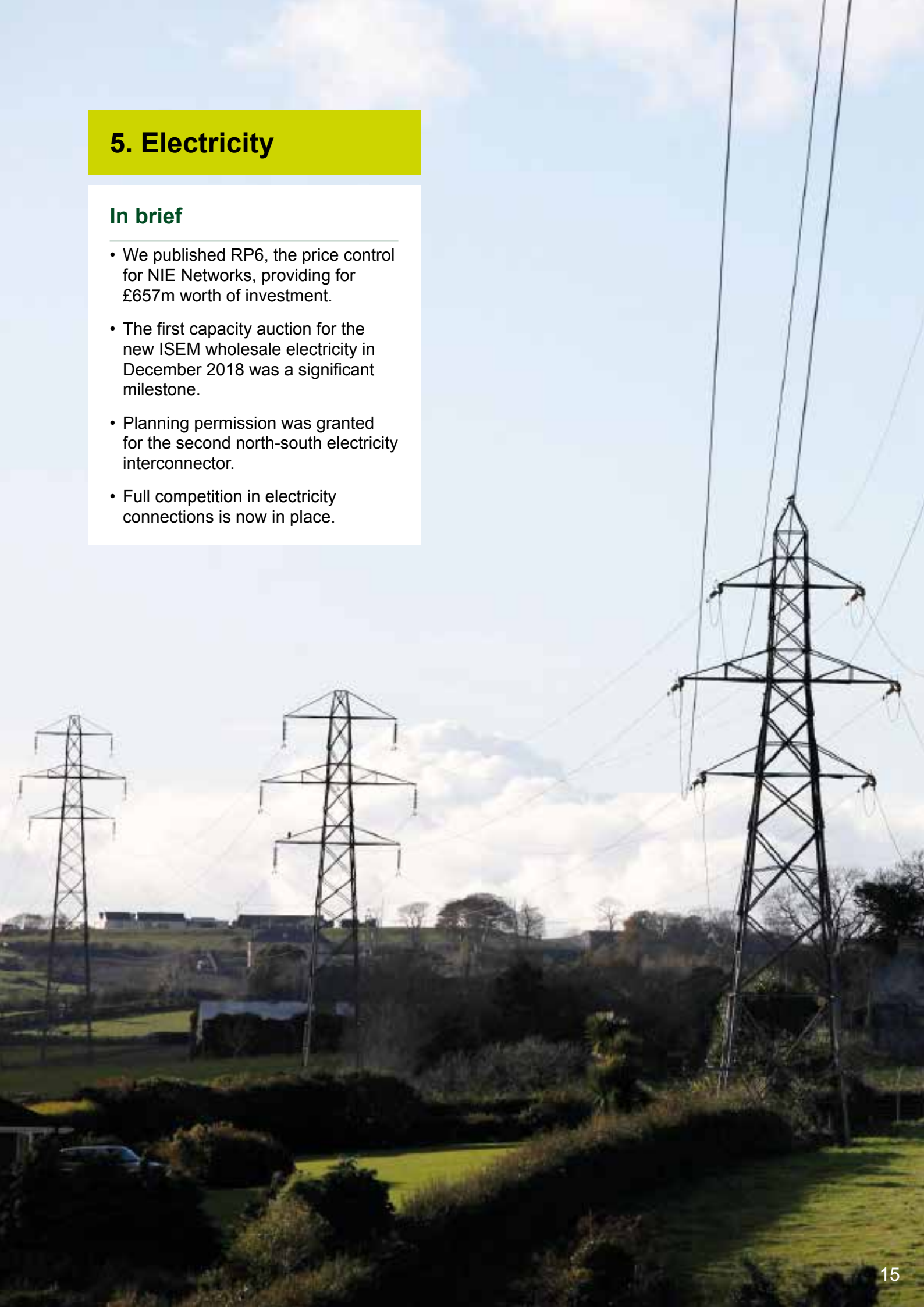
Following consultation it was decided that domestic customers would have their credit balance refunded. This would be funded in part by Power NI as the SoLR, and through the PSO levy.



## 5. Electricity

### In brief

- We published RP6, the price control for NIE Networks, providing for £657m worth of investment.
- The first capacity auction for the new ISEM wholesale electricity in December 2018 was a significant milestone.
- Planning permission was granted for the second north-south electricity interconnector.
- Full competition in electricity connections is now in place.



# 5. Electricity

## Promoting efficiency and monitoring the investment plans of regulated companies.

In June we published our final price control determination, RP6, for NIE Networks (NIEN) for the period 2017-2024. The price control sets out the amount of money that NIEN is allowed to build, operate and maintain its transmission and distribution electricity network over six years. RP6 sets out an incentive regime, including KPIs and outputs, which NIEN is expected to deliver over the price control period.

Key elements of our final determination were:

- A price control worth over a billion and a half pounds;
- Allowance of £657 million of network investment over the next six years, including provision for construction of the north-south interconnector;
- £134m million (or 9%) of cost savings by NIEN compared to the company's business plan;

- New performance indicators and a network reliability incentive trial to ensure customers benefit from improvements in service; and
- A small decrease in network charges paid by consumers by 2023/2024. For domestic consumers, this reduction would be £6 per annum compared to network charges at the end of the previous price control, RP5. Savings for larger energy users are likely to be more significant and up to £5,000 per annum for the largest users.

We published the licence modifications to implement the RP6 price control in August 2018.

Following the publication, in March 2017, of our licence modifications to implement the 2015-2020 price control, SONI appealed elements of this price control to the CMA. The CMA published its determination in November. Following engagement with SONI and the CMA, we published new licence modifications to implement the price control, in line with the CMA final determination.

Additionally, we published a process for cost recovery of Transmission Network Pre-construction Projects (TNPPs) and uncertain revenue (Dt) applications by SONI. We have also published further modifications to ensure appropriate costs associated with this work are recovered by SONI. The price control will facilitate the development of transmission pre-construction projects and operation of the ISEM and DS3 projects.

In line with our commitment to monitoring and cost reporting activities, we have continued to implement a structured reporting framework for all network operators. This will form the basis for building a robust data set for comparative analysis between network operators, performance reporting and efficiency challenges.

We continue to engage with NIEN on the regulatory information and guidance (RIGS) which allows comparison with GB electricity companies and provides transparent annual cost reporting. We are rolling out this cost reporting methodology across all network companies that we regulate.





## Promoting market opening and competition

The Single Electricity Market (SEM) has been operating since 2007, however it is due to be replaced later in 2018 by the ISEM, the integrated wholesale electricity market. The ISEM will deliver a more competitive market that ensures that consumers only pay for generation that is needed, will send clear signals for current and future investment and ensure security of supply.

During the last year we made progress across all the significant ISEM workstreams: energy trading arrangements, capacity remuneration mechanism (CRM), governance and licensing, forwards and liquidity and market power.

ISEM policy development was also advanced as follows: the design of rules to oversee the energy trading arrangements and the operation of power exchanges, the first capacity auction (see below) and the introduction of price controls and licence amendments for the new market.

The ISEM trading arrangements are supported by power exchanges (or Nominated Electricity Market Operators - NEMOs). These NEMOs are based within the island of Ireland and across Great Britain. We have a fundamental role by coordinating efforts across the regional NEMOs for the delivery of the new market. The ultimate ambition is to have multiple NEMOs in order to promote competition for the provision of market operation services.

A significant amount of engagement has taken place in preparation for ISEM. We have also taken steps to provide more accessible information on the ISEM and developed and published a 'Quick Guide to the ISEM'. Along with the system operators, SONI and EirGrid, we continue to work to ensure the necessary systems and processes are in place to aid market readiness. While Brexit could potentially impact on ISEM we are continuing to progress delivery, having consulted both governments, by the go-live date in 2018.

## Market monitoring

The market monitoring unit (MMU) for the SEM is based at our offices. The MMU monitors activity in the SEM and carried out a number of investigations into bidding practices in the market during the year. The MMU's quarterly update report, which we publish on the SEM Committee website, provides an overview of activity in the SEM.



### MMU quarterly reports - key facts

- The system marginal price (SMP) in the SEM increased from an average of €42/MWh in 2016 to €47.50/MWh in 2017.
- This average SMP for 2016 was the lowest on record, with three of the four quarters seeing average SMP at €38/MWh.
- The driving factor in the increase in SMP was mainly due to higher gas prices.
- Gas has been the dominant fuel type since the SEM began, and represented 55% of total fuel consumed on average for 2017.
- Levels of demand were broadly similar to those seen in 2016.

The Annual Capacity Payment Sum (ACPS) for 2018 was also calculated. This is the revenue earned by generators in the SEM in return for the provision of available capacity. This resulted in an increase in capacity payments, mainly



due to the increase in forecasted demand levels.

## Addressing security of supply and promote sustainability

Security of electricity supply in Northern Ireland remains a medium to long-term risk.

Most critical to addressing this risk is the construction of a second north-south electricity interconnector which received planning permission in January for the work in NI. We will work with both NIEN and SONI to ensure the appropriate monies are available to deliver this project for the benefit of NI consumers.

We have also continued to work with DfE and SONI to assess and manage longer-term security of supply issues.

The CRM for the ISEM is designed to assist with addressing security of supply. The CRM was developed through a series of consultations and decision papers and received EU State Aid approval in November.

The first CRM auction took place on 15 December. Not only did it secure capacity for the period up to September 2019, it is also estimated that it will deliver significant consumer savings in NI. Further auctions will take place in order to secure capacity for subsequent years. The first CRM auction included locational capacity constraints for the NI and Dublin area and sufficient capacity was secured for both areas.

We also took steps to promote sustainability. In order to address the impacts that increasingly high levels of wind places on the electricity system, along with CRU, we have continued progressing the delivery of DS3 - a secure, sustainable electricity system. The objective of DS3 is to facilitate increased levels of renewables and effectively decrease the levels of curtailment.

At any given time, the starting operational limit on fluctuating generation (including renewables such as wind and solar) was 50%. Through the successful completion of the DS3 programme, this limit has been increased and the system is now operating at 65%. One of the DS3 goals is to move the limit to 75%.

Previous work on the trials for verifying the provision of both new system services and new types of providers have been successful. This has led to an increase in the number of providers of system services. This should flow through to contracts awarded in May 2018. In addition, this year has seen the development of a competition to introduce a small proportion of long-term contracts for the provision of system services (up to six years). Alongside the CRU, we are working closely with SONI and Eirgrid to develop cost control measures to ensure consumers are getting value for money from the increased provision of systems services.

We have been working with stakeholders and the system operators to implement the European Electricity Network Codes. These rules, known as network codes or guidelines, are legally binding European Commission implementing Regulations. They govern all cross-border electricity market transactions and system operations on conditions for accessing the network for cross-border electricity exchanges. We are engaging with the relevant stakeholders to ensure compliance with these European Commission Regulations.

We continue to host the Renewables Grid Liaison Group (RGLG) to provide a forum for addressing renewables issues. During this year, the group provided a platform to offer updates on the renewables integration status report and transmission system development as well as updates on connections, constraints and contestability. Three RGLG meetings



took place and the associated documents are available on our website.

## Addressing electricity connections issues

As more renewable generators are connected, the saturation of the electricity grid across parts of NI continues to be evident. We will continue to work with NIE Networks and SONI to ensure that connections that can be accommodated without transmission investment will be dealt with quickly.

Following our work on introducing contestability in electricity connections, all customers now have a choice on who carries out the work associated with connecting to the electricity network. 'Contestability' means that alternative Independent Connection Providers (ICPs), instead of NIEN, can construct an element identified as contestable when connecting to the electricity network. Larger customers (>5MW) have been able to choose an ICP since 2016, however this now applies to all electricity customers, including domestics, for new electricity distribution and transmission connections in Northern Ireland.

## Addressing quality of service and service standards issues

We carried out work on the following areas during this year:

- We continued to work with the regulated electricity companies to ensure adherence with their compliance plans.
- Under our direction, NIEN continue to manage vacant power station sites, which we refer to as Land Bank. A number of sites are in the process of being sold to release value to consumers and we have seen increased interest in the development of specific sites for potential generation development.
- Five formal complaints regarding electricity were raised. Three have been completed while two are still ongoing.
- We were involved in a judicial review of a decision in relation to deemed export of electricity by small scale generators associated with domestic properties. The outcome will be announced later this year.
- We continue to engage with DfE in relation to metering strategy and smart metering considerations.





## 6. Gas

### In brief

- We contributed to the CMA inquiry on the GD17 price control, robustly defending the consumer's interest.
- Significant progress was made on extending the natural gas network to the West of Northern Ireland and East Down.
- The go-live of the Gas Market Operator in October 2018 was a positive development.
- The total number of gas consumers connected in NI is now 244,000.



## 6. Gas

### Promoting efficiency and monitoring the investment plans of regulated companies

GD17 is the price control for gas distribution networks companies - firmus energy, Phoenix Natural Gas Limited (PNGL) and SGN. The price control, which runs from January 2017- December 2022, sets allowances for companies to run their businesses and invest in the gas network. PNGL and SGN accepted the price control, however firmus energy (FE) brought an appeal against certain elements of our determination to the CMA in November 2016. Whilst the majority of this work was carried out in the previous annual report year (2016-2017), the CMA published its final determination in June 2017.

FE's appeal had four grounds, which were subdivided into 12 sub-grounds. The CMA upheld our price control decisions on most of the nine grounds. Two of the remaining sub-grounds were remitted back to us which we consulted on and published our decision in March 2018.

In August 2017 we published our final determination for GT17, the price control for the four high pressure gas conveyance licence holders in NI for the period October 2017 to September 2022. The four licence holders are: GNI (UK) Limited (GNI (UK)), Premier Transmission Limited (PTL), Belfast Gas Transmission Limited (BGTL) and West Transmission Limited (WTL), who all accepted the determination.

Key areas of the price control were operating expenditure, expenditure to replace or upgrade existing equipment where necessary and, for GNI (UK) and WTL, the rate of return. The price control also set out the allowances for the Single System Operator which was implemented in NI on 1 October 2017. WTL's Gas to the West high-pressure licence was granted on the expectation that the licence holder would raise a bond to pay for the development of the network. In light of the historically low cost of debt, we explored with



WTL the feasibility of raising the necessary finance in a timely manner rather than after completion of the construction activities as initially envisaged.

### Promoting the development of the gas industry

Our commitment to promoting the economic development of the natural gas industry in NI is enduring. Significant progress has been made on extending the network in the past year. During the year, we have engaged regularly with SGN, Mutual Energy and Phoenix Natural Gas to monitor developments.

Major works contracts for the construction of the Gas to the West pipelines (serving Dungannon, Enniskillen, Omagh, Magherafelt and Cookstown) were procured. Construction began on both 78km of cross country high pressure pipeline and 100 km of intermediate pressure pipelines. Much of the construction and commissioning work will take place in 2018-2019 and we expect gas to be available to consumers before the end of the year.

This year also saw the construction of distribution pipelines in Strabane which has allowed domestic and business consumers to begin connecting to the new network.

At the end of 2017-2018 we also determined a capital expenditure target cost for the construction of the Gas to the West pipeline.

Work on constructing the gas network to East Down has also progressed with the towns of Hillsborough, Ballynahinch, Annahilt, and Spa connected during the year. This work has



been facilitated by our GD17 price control and provides for an additional £58m investment in the natural gas network. This will allow for over 27,000 more consumers to enjoy the benefits of access to natural gas.

Once the Gas to the West, Gas to East Down and GD17 network developments are complete, it will allow 67% of NI consumers to choose gas. By 2022 we expect that 60% of NI consumers will have connected to gas. The network coverage will run from Derrylin in the west to Bangor in the east, from Coleraine in the north to Newry in the south.

Our incentives on gas distribution network operators to make new connections continues to be successful. At the end of March 2018 the number of consumers connected to the natural gas network had increased to 244,000. This is encouraging given a key performance indicator from our corporate strategy is to have 250,000 connections by March 2019.

### **Establishing a single gas transmission system operator (TSO)**

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NI is obliged to implement Gas Regulation (EC) 715/2009, including the European network codes required by Article 8. We have worked closely with the gas transmission system operators as well as other regulators in GB and RoI to progress this. Part of the implementation includes the requirements from the amended capacity allocation mechanism and the new tariff network codes.

Additionally, work has continued with the gas transmission system operators to build on the delivery of the single system operation - a single code, management team and IT system. This was implemented in October 2017 and will lead to a more efficient and co-ordinated gas industry.

### **Security of supply**

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We worked with the gas transmission system operators on the preparation of the gas capacity statement, which was published by the single system operator in November 2017. The report assesses the ability of the NI transmission system to meet future demands on the network and stated that the gas network continued to be in a position to meet expected demand. We continued to work with government and industry to meet the requirements of the EU regulation 994/2010 on security of gas supply.

There were developments in other service areas aimed at protecting consumers during the last year. In particular, we consulted on the proposed standardisation of licence arrangements with respect to connections across high and low pressure gas conveyance licences. The proposed modifications will address the findings from a connection dispute, enhance transparency of licence drafting and improve consistency of regulatory arrangements. We have also implemented a number of other licence modifications to ensure further protection for consumers in NI and assist in the delivery of EU compliance.

A close-up photograph of a person's hand pouring water from a white electric kettle into a blue mug with white polka dots. The person is wearing a red long-sleeved shirt and a black watch. The background is blurred, showing a kitchen setting.

## 7. Water

- Our cost and performance report showed that NI Water met its key overall performance target.
- Our mid-term review of PC15 showed that NI Water is broadly delivering against the majority of the final determination targets.
- New codes of practice have been approved to assist NI Water with developing a more effective customer service.
- The majority of NI Water's non-domestic customers will see bill increases at or below the rate of inflation.

# 7. Water

## Delivering lower costs and improved levels of performance for consumers

We carried out an assessment of how NI Water performed in the second year of the PC15 price control. Performance was assessed against targets which were adjusted to account for public expenditure budget reductions. Following this assessment, we published our cost and performance report for 2016-2017 in March 2018.

NI Water has largely delivered on their monitoring plan performance targets in the first two years of the PC15 price control period. The company outperformed its operational expenditure efficiency target while, at the same time, continuing to deliver an improved overall level of service to consumers.

The key findings were:

- NI Water's operating expenditure was £200.6m in 2016-2017. This compares favourably to our regulatory allowance of £201.1m (in current prices), a difference of only £0.5m.
- The company invested £154.3m of capital expenditure in 2016-2017, contributing to

a total investment of £298m in the first two years of the PC15 price control period. This was £19m lower than the nominal figure of £317m included in the PC15 final determination due to reductions in public expenditure budgets. This constrained NI Water's ability to deliver the PC15 outputs in real terms even after the benefits of lower than anticipated inflation was taken into account.

- NI Water met our PC15 Overall Performance Assessment (OPA) target in 2016-2017. This is a composite performance score used to assess NI Water's overall delivery of service to customers.
- The company met or exceeded planned delivery in all but three of the 45 outputs in the monitoring plan. This includes 14 out of 15 consumer service measures and all of the water and sewerage quality outputs. NI Water delivered all of the nominated output targets and maintained stable serviceability.

## PC15 Mid-Term Review

In consultation with stakeholders, we completed our mid-term review of PC15. Overall the review established that NI Water had performed well against a backdrop of reduced public expenditure funding and is broadly delivering against the majority of the final determination targets.





We also concluded that NI Water should have sufficient funding to deliver all the outputs defined in the final determination under the planning scenarios considered. However, if there were further significant reductions, this would likely impact on outputs and benefits identified in PC15.

NI Water has marginally outperformed efficiency targets whilst also delivering against its service level outputs, demonstrating that cost savings are being delivered by efficiency as opposed to a reduction in service.

Funding uncertainty and annual budget allocations/adjustments may have the potential to impact on NI Water's ability to plan effectively and deliver the maximum efficiencies and benefits for consumers. However, we expect NI Water to continue to review its capital programme to make sure that opportunities for reductions in scope and cost are realised.

## Continued engagement with consumers

The Consumer Engagement Oversight Group (CEOG) partnership working model was first applied to NI Water through the current price control, PC15. The CEOG established a Customer Measures/Customer Satisfaction working group (CM/SAT), which we chair. Like the CEOG, the CM/SAT includes representation from NI Water, CCNI and DfI.

The collaborative partnership model we adopted for PC15 continues to assist with the development of more consumer-focused measures to monitor NI Water's performance against both GB and international service providers.

Our Annual Information Returns (AIR) now reflect new consumer survey questions on satisfaction with the company and consumer advocacy. The AIRs, along with an increased focus on resolving consumer issues at first contact, has provided NI Water with the actionable data to deliver even more effective customer service.

A new 'Voice of the Customer' survey has been introduced to allow NI Water to better understand customer requirements and



improve customer service delivery. This is done through contacting more customers (c10,000 per year) and requesting feedback on their experience.

Our collaborative consumer engagement approach developed for NI Water is being rolled out across our other regulated sectors. This will ensure we apply an annual, reputational incentive on locally regulated companies to achieve 'best of class' customer service. We intend to monitor this further within our annual costs and performance reports.

The CEOG has been re-constituted to lead the development of joint, collaborative consumer research to inform the next price control, PC21, which will cover the period April 2021 to March 2027. This research will also benefit DfI's social and environmental guidance. The CM/SAT will also examine whether, having successfully trialled and introduced new consumer metrics and satisfaction surveys during PC15, there is the scope to include these as new KPIs and targets (perhaps with tramlines if appropriate) for PC21.

## Ensuring consumers are charged fairly

We are required to approve NI Water's annual scheme of charges. This is to make sure charges are within the price limits determined by our price control. We also seek to make sure there is no undue preference or discrimination



by NI Water in setting charges between different consumer groups.

We commenced the process for setting the scheme of charges in August 2017. As well as assessing information provided by NI Water, we engaged with the Consumer Council for Northern Ireland (CCNI). Following this engagement and scrutiny, we approved NI Water's charging proposals for 2018-2019 in March 2018 which will see charges for their non-domestic customers increase at or below the rate of inflation (set at 3.9%).

Domestic consumers are not billed for water and sewerage, however the average notional domestic bill is now £415 (combined water and sewerage).

## PC21 Price Control

We have commenced our PC21 price control process with an initial round of bilateral meetings with key stakeholders. These meetings provided an opportunity to discuss our developing thoughts on the approach and timeline, and to seek stakeholder's initial views on priorities for the six year price control.

We plan to publish our final approach for PC21, including the timetable for the process, at the end of June 2018 following further engagement with key stakeholders.

## Contributing to the strategic agenda on water

As the economic regulator of water and sewerage services in NI we work closely with all strategic stakeholders. In co-operation with DfI we ensured that a suitable water target was included in the NI Executive's draft Programme for Government. Our OPA measure was chosen and we will monitor and report on performance moving forward as required.

In line with our duties to protect consumers we have continued to work on water resource and supply resilience with NI Water and other stakeholders. This has helped identify the investment required to meet water demand projections until 2042-2043 as well as potential options for improving the overall resilience of the water supply network.

Additionally, this work has allowed NI Water to define the level of service being offered to NI consumers for the first time. Public consultation on the draft proposals will commence later in 2018 and will help inform investment requirements for the remainder of the PC15 price control and for PC21.

We have continued to actively engage with DfI on the 'Long-Term Water Strategy' and the 'Living with Water Programme'. These initiatives will help to secure the delivery of improved levels of water and sewerage services in the medium and long-term at a reasonable cost. They will also help identify the strategic capital infrastructure development requirements for Belfast for consideration as part of the PC21 price control.

In line with the principles of better regulation we have continued to consider options for reducing the regulatory burden in consultation with NI Water. We granted the company time bounded derogations on the submission date for its next procurement plan and the ongoing requirement to complete current cost accounts. The decision to grant these derogations was taken following a period of engagement with NI Water when we carefully considered the implications to ensure they would not have any adverse impact on our regulatory duties or established regulatory processes.



## 8. Promoting sustainability

### In brief

- The proportion of electricity consumption from renewable sources rose to 35.2% by 31 March 2018.
- Over £9.1m of funding was provided to energy efficiency schemes under the Northern Ireland Sustainable Energy Programme (NISEP).

# 8. Promoting sustainability

## Promoting sustainable energy for consumers – the NI Sustainable Energy Programme

We have a duty to promote efficiency in the use of electricity and gas and sustainable long-term energy supplies with due regard to the environment and vulnerable consumers. The NISEP delivers energy efficiency measures with 80% of the funding aimed at vulnerable/ low-income consumers.

Almost £9.2m of NISEP funding was spent in 2016-2017 (the most recent year of reported data). The schemes delivered just over 733 GWh of energy saved and £108.7m of gross consumer benefit (net present value, over the lifetime of the measures).

For the year 2017-2018, approximately £7.88m in NISEP funding (this figure includes underspend from previous years) was made available for schemes. Post-implementation reviews will verify the outputs and benefits from these schemes over the coming months.



### Key NISEP numbers (2016-2017):

- £9,193,732 was spent on NISEP schemes overall;
- total lifetime energy savings were a substantial 733.362 GWh;
- 130,370 tonnes of lifetime carbon savings;
- £108,723,753 in lifetime gross consumer benefit savings; and
- £144,660 was earned in incentives for over achievement on energy saving targets.

As well as protecting consumers, particularly those who are vulnerable, energy efficiency and affordability are key concerns. NI is expected

to contribute energy savings each year to the UK-wide energy efficiency target as required by the EU's Energy Efficiency Directive.

The NISEP is currently the only NI energy efficiency scheme which contributes to NI's European energy efficiency target. In June 2017, following a request from DfE to consider the feasibility of extending the NISEP, it was agreed to extend the programme for a further year to March 2019.

As the lead NI department for implementation of the Energy Efficiency Directive, DfE is taking forward development of the EnergyWise scheme which has the potential to replace the NISEP. EnergyWise has not progressed as quickly as anticipated and we continue to work closely with DfE to consider the future development of energy efficiency provision in NI.

## Supporting renewable development

We are committed, wherever appropriate, to playing our role in increasing the proportion of electricity generated from renewable sources. The percentage of electricity consumption from renewable sources rose to 35.2% for the 12 month period ended 31 March 2018.

We are responsible for administration of the NI Renewables Obligation (NIRO). The NIRO is a statutory requirement on electricity suppliers to source an increasing amount of their electricity from renewable sources. Suppliers can meet





their obligation by either presenting renewable obligation certificates (ROCs) or paying into a buyout fund. ROCs are issued directly to renewables generators.

During the year 2016-2017, 200 additional generating stations in NI received ROC accreditation with a capacity of 394 MW. 61% of ROCs issued in NI went to onshore wind generating stations. 3.5 million ROCs were issued to NI generators in 2016-2017.

The NIRO closed to all new generation on 31 March 2017, with exceptions to closure in the form of grace periods for eligible projects as set-out in the closure legislation.

We continue to work closely with Ofgem and DfE on grace period NIRO applications.

### The climate change levy exemption scheme

In its 2015 budget the government announced its intention to withdraw the exemption from the Climate Change Levy (CCL) for renewable electricity from 1 August 2015. This change meant that we do not issue Levy Exemption Certificates (LECs) for electricity generated by renewable technology stations after 31 July 2015.

Generators can still request LECs for electricity generated before this date and electricity utilities can continue to use LECs to apply the exemption.

### Providing fuel mix information to consumers

We are required to ensure that all electricity suppliers provide reliable information on bills and promotional materials sent to customers regarding the contribution of each energy source to their overall fuel mix and the associated environmental impacts in the preceding year. We work with colleagues in CRU and SEMO to ensure suppliers provide fuel mix information to their customers.



## 9. Efficient and effective regulator

### In brief

- We were awarded accreditation under Investors in People for the first time.
- We launched a consultation on our new approach to enforcement.
- We achieved high levels of performance in meeting our business plan targets.
- Other indicators around our payment of suppliers and staff absence rates compare favourably with similar organisations.





## 9. Efficient and effective regulator

### Making the best use of our resources

#### Our finances

As a non-ministerial government department, our funds are voted by the NI Assembly. A summary of our financial performance is included at Appendix 1.

Table 1 is an overview of the key figures. Our statutory accounts can be obtained from the Stationery Office or from our website ([www.uregni.gov.uk](http://www.uregni.gov.uk)). Most of our costs are collected from annual fees paid by electricity, gas and water licensees.

**Table 1: Overview of financial position**

Expenditure	Actual (£000s)
Operating costs (gross)	11,032
Income	10,750
Operating costs (net)	<b>282</b>

We are committed to the prompt payment of bills for goods and services received. During 2017-18 the standard payment was 98% of undisputed invoices within 10 days. This was achieved in seven months of the year.

#### Developing our staff

Our staff group is diverse and mostly directly recruited. We also have a small group of secondees from the wider Northern Ireland Civil Service (NICS).

During 2017-2018 our absence rate was 1.67% (3.6 days per employee- based on employee numbers at 31 March 2018) which is below the NICS rate (NICS absence rate in 2016-2017 was 5.6% or 12.5 days lost per staff year).



Without our staff's continuing commitment we can't do our job and so we are always ready to support their development.

We were awarded accreditation with Investors in People in February 2018 following a comprehensive review of our policies, an extensive staff survey and selected interviews. This is an important milestone for the office but is only a first step and our human resources team is developing an action plan to deliver further enhancement to our people management and development plans.

We continue to develop proposals for training based on staff needs and corporate priority areas. These include specialist training in regulatory disciplines, work related higher education and other development opportunities. We also facilitate sharing best practice and current thinking through regulatory networking and facilitate inward secondments and student placements.

We periodically gather the views of our staff on working for us. The findings of a recent staff survey were broadly positive and helped us consider how we might enhance arrangements in areas such as managing performance and development opportunities. Moreover, the findings also helped inform our planned work on improving internal communications.

Our intranet site, 'Utility Room', continues to be a key source of internal information for staff. Our Chief Executive contributes frequent, topical blogs. A member of the senior management team acts as internal communication champion and chairs an internal



communications group as a channel for new ideas and suggestions for improving existing communication channels.

We are a member of Business in the Community and our staff have participated in activities during the year that have had a wider positive impact on the community.

## Performing effectively as a regulator

### Corporate Strategy 2014-2019

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At the end of the fourth year of our corporate strategy it is clear that we continue to make progress against the key performance indicators.

A report on progress to achieve our corporate strategy objectives is included at Appendix 1.

### Forward Work Programme 2017-2018

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Our plan sets out the key projects that we intend to undertake each year.

Overall, we achieved or partially achieved all of the time-limited tasks to be completed during 2017-2018.

Appendix 1 also includes an overview of progress against the FWP projects for 2017-

2018. We report on the status of each project (in terms of achievement) on our website [www.uregni.gov.uk](http://www.uregni.gov.uk).

## Regulatory action

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In 2018 we published a consultation on our new approach to enforcement. It is hoped that following engagement from industry, the new Enforcement Procedure and Financial Penalties Policy will come into effect in mid-2018. Several enforcement related actions were also progressed in year.

We also hold competition powers concurrently with the CMA. We have published competition guidelines which provide a framework for handling competition related matters and this year the CMA provided staff training to the Utility Regulator in relation to the exercise of these concurrent powers.

We also have a quasi-judicial role with regard to the determination of industry complaints and disputes. This year we have completed six of these matters.

## Enhancing how we work

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Of course the delivery of our corporate strategy depends not just on what we do but also relies on how we do things.

We have made significant progress on implementing UR People, our HR strategy. Its



purpose is to set goals across six key themes on how we look after and develop our staff.

We continue to place importance on training and development for our staff and identify, co-ordinate and deliver priority training. We have also focused on improving business resilience and flexibility through measures to develop our succession planning capability.

We also considered our resilience to deal with emergency event arising in the office (such as loss of facilities) and externally. Cyber security arrangements have been reviewed in light of attempts attacks on networks elsewhere and the role of IT Assist (the NICS in house provider remains very significant to us).

Another key plank of implementing our corporate strategy is around improving our communications.

Our stakeholder engagement programme remains central to our communications approach. We have continued to expand the opportunities for us to reach out to more organisations than ever. One example of this was a joint event with the Energy Institute which we organised in December 2017. The event, Energy beyond 2020, provided an opportunity for stakeholders to discuss key high level future issues.

The need to develop ongoing engagement is also key to our stakeholder programme. For instance, we continue to organise meetings with panels comprising consumer and business representative organisations.

Efforts to improve our online communications have also moved forward.

We are participating in the United Kingdom Regulators' Network (UKRN) and working groups. This has led to our involvement in projects ranging from the preparation of a guide for investors, to cost of capital and affordability projects and organisational development. UKRN provides a valuable opportunity to both share and learn from best regulatory practice.

Additionally we play an active role in the United Kingdom Competition Network (UKCN) which aims to promote competition and to prevent

anti-competitive behaviour. We also availed of CMA expertise to assist with the development of draft competition guidelines which were published in September 2017. We also meet CMA quarterly to discuss competition-related issues and contribute to the CMA's annual concurrency report.

## Corporate governance

### Governance and audit

The Department of Finance (DoF) appoints the chair and members of our board. There have been no changes to the membership of the board in this period. Our chief executive is the accounting officer and a member of the board.

We are accountable to the NI Assembly and produce an annual report which DfE lays before the Assembly on our behalf. Our decisions are subject to external review by, for example, the CMA and the courts. Assembly committees may ask for evidence to be given on matters relevant to their work.

Our internal audit is outsourced to Ernst and Young. The contract was previously held by Capita Consulting and was transferred to (EY) at no additional cost following Capita's decision to leave the internal audit market. Areas reviewed during the past year included our dispute resolution process, ISEM market implementation, operation of the Northern Ireland Renewables Obligation, financial systems and human resources. We work to implement audit recommendations as soon as



possible and again achieved a “satisfactory” overall assurance rating for 2017-2018.

## Board and board sub-committees

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Our board formally met nine times during 2017-2018.

Our board continued to undertake a planned series of meetings and activities with a diverse range of stakeholders. This included holding board meetings, visiting utility assets and meeting with stakeholders. Board members and external guests also provided briefings on a range of topics.

There were four meetings of our audit and risk committee during the year. Its membership comprised James Oatridge (independent chair), Richard Rodgers and Alex Wiseman. The chair of the board also attends meetings periodically. The Chief Executive, as Accounting Officer, and Director of Corporate Affairs also attend, as do other members of the executive team by invitation. The Northern Ireland Audit Office (NIAO) and Head of Internal Audit have standing invitations to attend meetings.

Our remuneration committee met twice. Its membership comprised Bill Cargo (chair), Teresa Perchard and Jon Carlton. The chair of the board also attends periodically. The Chief Executive, as Accounting Officer, and Director of Corporate Affairs also attend as do other members of the executive team by invitation.

During the past year our Board Advisory Forum (BAF) met five times. Membership comprises

non-executive directors and senior staff. The BAF allows the office to benefit from the advice and guidance of non-executive directors as well as challenge/scrutiny on the key policy issues.

The SEM Committee meets monthly to take decisions in respect of the exercise of relevant functions of CRU or us in relation to a SEM matter on behalf of each regulator. NI's current SEM Committee members, appointed by DfE and the Department of Communications, Climate Action and the Environment (DCCAE) are Jenny Pyper, Bill Emery and Jon Carlton.

Our senior management team continued to meet weekly. In addition, there were regular SMT workshops throughout the year on a series of strategic organisational issues.

## Information technology and governance

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Our information management committee oversees governance arrangements for the provision of secure and efficient information storage and transfer.

During the year, further progress was made on the design of a revised file plan which better reflects the cross utility structure of the office and which will, when completed, facilitate eventual migration to an electronic data records management system. The committee has been heavily involved in preparations for the implementation of the General Data Protection Regulation from May 2018.

All of our desktop, telephony and IT infrastructure services are provided by IT Assist, the NICS managed service provider of IT services. This provides a secure, fully managed IT support service. A review of our readiness to deal with any cyber-attacks was undertaken and the level of security provided by the IT Assist arrangements was identified as pivotal to the level of assurance around security of our IT systems.

## Freedom of Information

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In 2017-2018 we received seven requests under the Freedom of Information Act. Responses to all requests were issued within the statutory period prescribed by the Act.





# Appendix 1 – Performance report



## (i) Financial report for the year ended 31 March 2018

### Central government financing

£282k was borne by central government in respect of expenditure on areas not covered by current licences such as management of the CCL exemption scheme, the electricity (guarantees of origin of electricity produced from renewable energy sources) scheme and the Renewables Obligation Order (NI) 2005 scheme and notional costs.

### Licences

A breakdown of licence fee income is set out in Table 2 below.

Table 2: Licence fees by utility	Total licence fees (£000s)
Electricity	7,248
Gas	1,961
Water	490

We also collect fees on behalf of CCNI. This is for work done under the Energy (NI) Order 2003 and Water and Sewerage Services (NI) Order 2006. The total fees collected were £634,250, of which £192,803 was attributed to electricity, £145,447 to gas and £296,000 to water.

### Accounts

The statement of comprehensive net expenditure shows that salary costs increased slightly from the previous year (£5,192,000 in 2016-2017 against £5,375,000 for 2017-2018). This reflected the office operating largely at full complement for the year and annual pay increments. Other costs increased primarily as a result of the requirements needed to progress development of the ISEM, the cost of litigation and price control referral costs in 2017-18. The percentage of staff costs to total costs in 2017-2018 of 49% represents a slight decrease from that in 2016-2017 of 51%.

Our gross expenditure in pursuit of our objectives as detailed in the statement of operating costs by operating segments (see Table 3) was as follows.

Table 3: Expenditure by segment	2017-2018 (£000s)	2016-2017 (£000s)
Segment 1 (electricity)	8,477	6,822
Segment 2 (gas)	2,048	3,005
Segment 3 (water)	507	392

More detailed financial information on costs can be found in our accounts.



## (ii) Report on progress against Corporate Strategy Key Performance Indicators

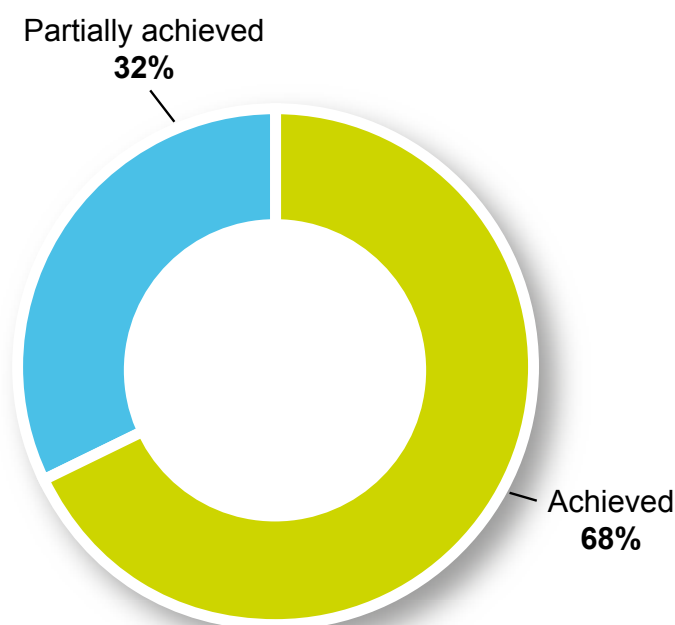
Objective	Key performance indicators	Progress during 2017-2018
1: Promoting effective and efficient monopolies	1. Network utilities will be able to demonstrate their excellence in asset management, which is measured against other utility companies.	<ul style="list-style-type: none"> <li>• NIEN, GDNs and NI Water have now provided reports on asset management including work with consultants to achieve externally validated standard compliance e.g. PAS55.</li> <li>• NIEN submission received on asset management. For the GDNs development objectives are reflected in the GD17 final determination. Also asset management reports are now included within Gas Annual Cost Reporting.</li> <li>• Measurement of asset management excellence is reflected within our benchmarking and subsequent allowances.</li> </ul>
	2. Network utility costs and performance measure favourably against the top quarter of appropriate comparable companies.	<ul style="list-style-type: none"> <li>• Benchmarking data submitted by NIEN states they are in top quartile and we will review this during RP6. We have also worked effectively with NIEN to improve approach to electricity connections/manage impact of changes in government policy.</li> <li>• For the GDNs GD17 benchmarking models are set out in final determination and engagement with GDNs will continue as part of annual performance reporting. Benchmarking of GDNs opex in GD17 showed some catch up required to meet top quartile and we will monitor this in cost and performance reports. Developed licence conditions for improved clarity on connections to gas networks.</li> <li>• NI Water has made progress on efficiency but given funding limitations is unlikely to be able to demonstrate top quartile behaviour in the short-term. Work on an updated benchmarking approach with Ofwat to continue in preparation for PC21.</li> </ul>
	3. Our regulatory tools have helped make sure that regulated utilities drive further effective innovation, such as smart grids and meters.	<ul style="list-style-type: none"> <li>• NI Water, NIEN and GDN price controls incentivise innovation but leave operational decisions up to companies. NIEN has submitted requests in RP6 for trials and we will review against published criteria. We have continued to develop reporting from NIEN to suppliers on meter replacement programme.</li> </ul>
	4. Regulated companies deliver the outputs required by our price control decisions, on time and within budget.	<ul style="list-style-type: none"> <li>• Price controls and reporting will monitor this. NI Water cost and performance reports published annually. For the GDNs outputs are clearly set out in GD17 FD. NIEN has proposed various outputs and KPIs in its submission and will work on these to ensure outputs are clearly set out in RP6. We identified an FWP project for 2017-18 in respect of developing cost and performance reports across all network companies.</li> </ul>
	5. Network gas extensions have been delivered, leading to over 250,000 connections by 2019.	<ul style="list-style-type: none"> <li>• Target on track to be met early (in 2018) with 244,000 connections. Following a competitive process licences were awarded to bring Gas to the West and the project is now in construction.</li> </ul>

Objective	Key performance indicators	Progress during 2017-2018
2: Promoting competitive and efficient markets	1. The ISEM is delivered on time and is consistent with the EU target model.	<ul style="list-style-type: none"> <li>The programme overall is currently on amber but on track to achieve KPI being mindful of risks associated with legal challenge and systems delivery informing system operator and market participant readiness.</li> </ul>
	2. The Retail Energy Market Monitoring (REMM) system is in place and reported on each year, increasing customer protection.	<ul style="list-style-type: none"> <li>REMM is now formally in place and reported upon by suppliers and DNOs.</li> <li>REMM reporting, (except via QTR), has been delayed by resource diverted to supplier compliance matters. We hope to look at how we deploy and use REMM datasets both internally and externally during 2018 and plan to bring a paper to board in late 2018.</li> <li>In resource terms, this currently will be dependent on supplier compliance activities and is the subject of an 18/19 FWP project.</li> </ul>
	3. The effectiveness of competition in our energy markets has been assessed and we have put in place the associated regulatory and policy frameworks.	<ul style="list-style-type: none"> <li>Phase 2 of our review of retail competition is now completed; price regulation remains on dominant suppliers. Related matters are under constant discussion/thought and interaction with regulated suppliers, given especially recent GB price cap developments.</li> <li>A project on promoting transparency and effective competition in the small business markets is included in FWP 2018-19. This has been commenced and a consultation paper will issue in October.</li> <li>The SEM Market Monitoring Unit continues to monitor market participant behaviour and investigate.</li> <li>There is continued work on EU gas network code compliance requirements. The implementation guidelines for contestability in electricity connections have been approved. Contestability in place for distributed connected generation above 5MW.</li> </ul>



Objective	Key performance indicators	Progress during 2017-2018
3: Protecting consumers	1. That there is an increase in the proportion of generation from renewables between 2014 and 2019 in line with the NI Executive's targets.	<ul style="list-style-type: none"> <li>Official figures show that 35% of electricity generated from renewables (March 2018 figure). Government target of 40% by 2020.</li> <li>DS3 project to facilitate more wind to be deployed is also progressing to programme.</li> </ul>
	2. The immediate risk to electricity security of supply has been addressed by 2016 and longer-term concerns are dealt with by working with DfE and SONI.	<ul style="list-style-type: none"> <li>Engaged with PTL and GNI in relation to the Transportation Arrangements for securing gas transportation for NI post 2021 (and a proposed project for FWP 2018/19).</li> <li>ISEM CRM being designed to take account of local capacity needs. Long-term requires North-South interconnector to be in place. Plant closure framework being developed by TSOs to manage generation exit.</li> </ul>
	3. We have delivered the Consumer Protection Strategy (CPS) and have put in place revised energy supplier codes of practice.	<ul style="list-style-type: none"> <li>CPS strategy published in 2016 along with five year action plan. Year One (16/17) projects all either complete or substantially underway, though some slipped into 17/18. Year Two (17/18) projects are mainly underway though several will fall into 18/19.</li> <li>The CPS committed us to hold a "Consumer Summit" in 2018/19 – part of the purpose of this is to review progress on the CPS first two years and re-examine project priorities and timing for the final three years. This is a key focus for framing consumer protection discussions during 2018/19.</li> <li>Supplier minimum standards codes now complete and in place; alongside a new Supplier Code on clarity of billing. A new (DNO and Supplier) Theft Code is also being developed under the CPS Action Plan.</li> </ul>
	4. Consumers are able to make informed decisions and there is a high level of satisfaction with customer-protection measures.	<ul style="list-style-type: none"> <li>Work has progressed with CCNI on customer switching capabilities, price comparison website and consumer education projects around switching and prices. We have also issued a user-friendly leaflet as a Guide to Switching Supplier.</li> <li>We have also commenced a project on measures to improve the small business energy market and customer confidence in those markets. In addition, we have begun a project with Trading Standards to look at the behaviour of energy brokers in our supply markets and examine the need for any form of regulatory oversight or control to protect consumers.</li> <li>As regards the "high level of satisfaction" aspect of the KPI, in order to measure the success of our work to date on consumer protection and define gaps/priorities going forward, formal consumer research is needed. It is planned for 2018/19 (under the CPS umbrella) to assess consumer attitudes, behaviours, satisfaction and areas of ongoing concern re retail market and supplier regulation. We plan baseline research which we can repeat going forward. We also engage in UKRN consumer protection best practice projects and assessing the outcome of the Audit Office report on RAs best practice for vulnerable consumers.</li> <li>Note the above is resource dependent and the subject of a 2018/2019 FWP project.</li> <li>Regular formal and informal meetings are held with CCNI, Trading Standards, third sector, etc to pick up areas of concern emerging and any compliance issues.</li> </ul>

### (iii) Overall outcome for Forward Work Programme projects 2016-2017 (25 projects)



Project	Report
Develop cost and performance reports across all network companies	Work recently initialled for gas transmission network companies. Cost and performance reports for GD14 gas distribution anticipated end June 2018
Progress ISEM delivery to ensure market go-live by May 2018	In response to the Transmission System Operators and market participants call for an extension to the go-live date to allow adequate IT testing and market trialling the go-live was delayed to 1 October 2018
Establish the ISEM Market Monitoring Unit (MMU) to include the IT redevelopment process	A programme has been developed and work is ongoing in relation to the development of a robust marketing monitoring regime from go-live, married with the further development of an enduring IT system.
Review financial penalties policy and associated guidance	Work to be concluded in June 2018
Protecting non domestic energy consumers	Project underway, consultation closed, decision paper scheduled for mid 2018/19
Implement Consumer Protection Strategy (CPS) Action Plan Years 1 and 2 projects	Several "year 2" projects Achieved; but several delayed due to resource pressures and lengthy project timelines.
Assess the implications of the UK leaving the EU for the energy and water regulation	Further work continues into the next year
Work to ensure the smooth closure of Northern Ireland Renewable Obligation (NIRO) to new entrants and work with DfE	The NIRO is closed to new entrants but grace period eligibility issues are still ongoing



# Appendix 2 –

## Glossary and list of abbreviations

# Glossary of terms

**Annual Capacity Payment Sum** – revenue earned by generators in the Single Electricity Market in return for the provision of available capacity.

**Capital expenditure** – also referred to as capex. Funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

**Cost and Performance Report** – an annual report that outlines our independent assessment of how NI Water has performed against efficiency targets and key performance indicators outlined in their price control.

**DS3** – an initiative to deliver a secure, sustainable electricity system. This initiative involves us, the CRU and the transmission system operators in NI and the Republic of Ireland and aims to: make sure there is a constant electricity supply; and help meet renewable targets relating to electricity. The three main work areas relate to system performance, system policies and system tools.

**LECs** – Levy Exemption Certificates are issued through the CCL scheme to accredited generators in NI and the Republic of Ireland.

**NIRO** – the NI Renewable Obligation is a statutory requirement on electricity suppliers to source an increasing amount of their electricity from renewable sources.

**NISEP** – the NI Sustainable Energy Programme (NISEP), which was previously known as the Energy Efficiency Levy (EEL) provides funding for energy efficiency and renewable energy schemes.

**Operating expenditure** – also referred to as opex. Ongoing cost for running a product, business or system.

## **Quarterly Transparency Reports (QTR)**

– quarterly reports that provide a range of information about the retail electricity and gas markets in NI.

## **Renewables Obligation Certificates (ROCs)**

– are green certificates issued by us to operators of accredited renewable generating stations for the eligible renewable electricity they generate. Operators can then trade the ROCs with other parties, with suppliers ultimately using the ROCs to demonstrate that they have met their obligation.

## Abbreviations

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**BAF** – Board Advisory Forum

**BGTL** – Belfast Gas Transmission Ltd

**CMA** – Competition and Markets Authority

**CCL** – Climate Change Levy

**CCNI** – Consumer Council for Northern Ireland

**CEAP** – Consumer Engagement Advisory Panel

**CEOG** – Consumer Engagement Oversight Group

**CRU** – Commission for the Regulation of Utilities (formerly Commission for Energy Regulation)

**CM/SAT** – Customer Measures/Satisfaction

**CPM** – Capacity Payment Mechanism

**CPS** – Consumer Protection Strategy

**CRM** – Capacity Remuneration Mechanism

**DECCA** – Department of Communications, Climate Action and the Environment

**DfE** – Department for the Economy

**DoF** – Department of Finance

**DfI** – Department for Infrastructure

**DfC** – Department for Communities

**DNO** – Distribution Network Operator

**fe** – firmus energy

**FWP** – Forward Work Programme

**GDN** – Gas Distribution Network

**GNI** – Gas Networks Ireland

**ICP** – Independent Connection Providers

**ISEM** – Integrated Single Electricity Market

**LECs** – Levy Exemption Certificates

**MMU** – Market Monitoring Unit

**MWh** – Megawatt hour

**NEMO** – Nominated Electricity Market Operator (for the ISEM)

**NRA** – National Regulatory Authorities

**NIAO** – Northern Ireland Audit Office

**NIEN** – Northern Ireland Electricity Networks

**NIRO** – Northern Ireland Renewable Obligation

**NISEP** – Northern Ireland Sustainable Energy Programme

**OPA** – Overall Performance Assessment

**PC15** – Price Control (for NI Water) 2015-2019

**PNGL** – Phoenix Natural Gas Limited

**PTL** – Premier Transmission Ltd

**PPB** – Power Procurement Business

**PSO** – Public Service Obligation

**REMM** – Retail Energy Market Monitoring

**RGLG** – Renewables Grid Liaison Group

**RIGS** – Regulatory Information and Guidance

**ROCs** – Renewable Obligation Certificates

**RP5** – Regulatory Price Control Period 5

**RP6** – Regulatory Price Control Period 6

**SEF** – Strategic Energy Framework

**SEMC** – Single Electricity Market Committee

**SEMO** – Single Electricity Market Operator

**SGN** – Scotia Gas Networks

**SMP** – System Marginal Price

**SNSP** – System Non-Synchronisation Penetration

**SoLR** – Supplier of Last Resort

**SONI** – System Operator of Northern Ireland

**TNPPs** – Transmission Network Pre-Construction Projects

**TPIs** – Third party intermediaries

**TSOs** – Transmission System Operators

**UKCN** – UK Competition Network

**UKRN** – UK Regulators' Network

**WTL** – West Transmission Ltd



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