

Director General of



lectricity supply for Northern Ireland



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Director General of



ANNUAL REPORT 2001

Director General of Electricity Supply for Northern Ireland

Director General of Gas for Northern Ireland

Laid before the Northern Ireland Assembly in accordance with Article 53 (3) of the Electricity (Northern Ireland) Order 1992 and Article 32 (3) of the Gas (Northern Ireland) Order 1996 by the Department of Enterprise, Trade and Investment



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electricity

To: The Department of Enterprise, Trade and Investment

I enclose my Report for the year ended 31 December 2001 as required by Article 53 of the Electricity (Northern Ireland) Order 1992 (the Electricity Order).

I confirm that during the period of this Report,

- i) I made no references to the Competition Commission.
- ii) I made no final or provisional orders; and
- iii) I received no general directions under Article 50(2) of the Electricity Order.

D B McIlldoon

Director General of Electricity Supply for Northern Ireland





The Electricity Industry in Northern Ireland

Statement from the Director General of Electricity Supply for Northern Ireland

There is no point trying to minimise the extent to which the electricity supply industry in Northern Ireland appeared to move backwards in 2001. Government policy has consistently aimed at the development of an industry which is competitive, efficient and clean, with efficiency gains being passed to customers in the form of lower prices. The trend in price differentials with neighbouring regions has been the most readily accessible indicator of success or failure in meeting those policy objectives.

After several years of plodding in the right direction - prices fell in real terms every year after 1997 - in 2001 we seemed to go into reverse gear. Prices rose, differentials widened, competition decreased, generator efficiency declined and emissions worsened. All these events were linked. The driver behind all of them was the rise in fuel prices in world markets to which Northern Ireland (NI) was and is particularly exposed.



Fuel prices started to rise in 2000 but their full impact on electricity customers was not felt until 2001. The price of spot gas rose from 14p per therm in Spring 2000 to 21p in Spring 2001 and the price of oil rose from \$13 a barrel in 1998 to \$30 a barrel in 2000. (While NI does not generate much of its electricity from oil, the gas contract for Ballylumford is partly indexed to oil prices). Coal prices also rose though more modestly. As luck would have it the initial discount on the Gas Supply contract (LT13) with Ballylumford also ended increasing the cost of this contract.

Under the European Union's (EU) Internal Market in Electricity Directive (IME) 35% of customers are allowed access to suppliers of their choice. In NI this meant the 720 largest consumers. These "eligible customers" had obtained significant price reductions when the price of gas was low. But as the fuel cost was such a major component of the final electricity price of the Independent Power Producer (IPP) sets at Ballylumford the cost of IPP generation shot up. Ballylumford IPP sets lost their competitive edge and one set closed. Powergen - one of the three Second Tier Suppliers (STS) contesting the eligible customer market - left the market leaving only the STSs of the two island incumbent utilities to compete for what was left.

The high gas price led to a greater reliance on coal fired generating sets and thus a higher emissions output. Finally Great Britain (GB) and indeed many other EU Member States were not as exposed as NI to world fuel price rises. The combination of nuclear power, over capacity and a competitive market in generation protected customers in GB. The Irish Republic's fuel price exposure is similar to NI's and prices in the Republic did increase by the end of the year:

Tariffs for domestic customers increased by 9%. NIE gave customers the opportunity of avoiding the price increase by a special offer on low energy light bulbs, the reduced energy requirement of which would have offset the increased unit price. About 10,000 customers or about 1.6% of customers took up the offer. NIE's Eco-energy customers who are fully supplied with renewable electricity also escaped the worst effects as the renewables price premium was halved from 12% to 6%.

However bad this picture is, it is worth making the point that domestic customers were still paying less in 2001/02 than they had been paying in the peak price years of 1996/97. In 1996/97 the notional domestic customer consuming 3300 kWhs would have paid £348 (excluding VAT) after removing a subsidy of £8. In 2001/02 the notional average price was £310. If inflation is taken into account the fall in notional domestic prices is about 20%.

In practice, the average domestic household in NI consumes more than 3300 kWhs. With rising incomes and new appliances the amount increases each year and between 1996/97 and 2000/2001 it increased from 3670 to 3980 kWhs, an increase of 8.5%. In the same period average household income increased from £16,962 to £19,084. Thus the actual average household expenditure on electricity increased from £371 to £373 (excluding VAT). However, as a proportion of household income, expenditure on electricity fell from 2.2% to 2%.

This happened despite an increase in fuel prices of 19% between 1996 and 2001 showing that locally controllable costs fell by an even larger percentage than final prices. The price increases of 2001 makes abundantly clear the need for efficient generation so that the cost of the primary fuel will have less impact on the final cost of electricity. If NI had moved rapidly as advocated in the Office for the Regulation of Electricity & Gas (Ofreg) consultation papers in 1998 to upgrade its generation, the effects of the fuel price rises would have been less painful. Customers paid a high price for the ill-considered decisions made in the early 1990s. Now they have paid a high price for the indecision of the late 1990s.





So much for the bad news.

One of the reasons why 2001 appeared to be such a bad year for electricity customers is that there is a long lead in time to fundamental change in the industry. Much was happening during the year which should deliver benefits later. Work on the Ballylumford CCGT has been proceeding and step by step the bits of the Coolkeeragh CCGT jigsaw were put in place. These two power stations will increase the efficiency of generation in stages from a system efficiency of around 30% to something closer to 45%. At the same time work on the Scottish Interconnector was proceeding. Hopes of accelerating the completion of the Interconnector were frustrated by the foot and mouth epidemic which restricted access to agricultural land and resulted also in some slippage on NIE's distribution network refurbishment programmes.

Market opening to 35% of demand was completed two years ahead of the EU's requirement and while eligible customers were understandably disappointed by price increases and lack of competition compared to the previous year, they nevertheless appear to have been able to buy electricity at a 4% or 5% discount to the published NIE tariff. As prices in the competitive market are set by negotiation between customer and supplier Ofreg does not have detailed and comprehensive information about eligible market prices.

This year saw the introduction of the Climate Change Levy (CCL) for the non-domestic electricity market. The CCL exemption scheme is administered by Ofreg and it does significantly - along with the Transmissions Use of System credit - reduce the cost disadvantage of renewables competing against fossil fuel generators. There was, therefore, a surge of interest from business, commercial and public body customers in NIE's Eco Energy tariff and pressure to facilitate trade in renewables by STSs. Ofreg responded to this pressure by establishing a *Trading Renewables Implementation Group* (TRIG) which brought all the interests together to explore easy to implement, low cost solutions to trading in renewables. As with other activities the work of TRIG will only bear fruit in later years though the benefits should begin to come through by 2002.

The Energy Efficiency Levy (EEL) was increased to £2 as NIE had established that it can use customers' money effectively to reduce the overall electricity bill, improve the environment, retain a larger percentage of energy expenditure in NI and benefit in particular low income households. As the benefits of each pound invested in energy efficiency measures flow over a number of years it will be some time before the effect of energy efficiency



expenditure can be expected to noticeably bend the rising curve of domestic energy consumption. In the year 2001/2002 NIE spent £1.4m of customers' money on energy efficiency and produced lifetime savings with a present value of £13.264m avoiding approximately 188 Gw hours of consumption and 57.2 thousand tonnes of carbon going into the atmosphere.

When the Ballylumford agreement was reached by which Ballylumford retires old sets and replaces them with a CCGT I undertook to report each year on whether in that year the transaction had been to the benefit of customers or to their detriment. I was, and am conscious, of the possibility that this could change from year to year. Moreover since the benefits of the CCGT will be greater when gas prices are high - because it will require only two thirds of the gas of the old plant for any level of output - customers may not associate benefits with lower prices. While the benefits of the CCGT really only begin once the new set is commissioned nevertheless the Ballylumford agreement does have price implications before that happens. In 2001/2 customers paid £5m less for their electricity as a result of the agreement. This was mainly because of reduced availability payments in that year and a low level of payments for the buyout of parts of the contract.

The implications of devolution on the electricity industry began to crystallise this year. The Assembly Committee for Enterprise, Trade and Investment held many hearings and did much to set the context within which Northern Ireland Electricity (NIE) and Ofreg conducted the debate about

the Transmission and Distribution (T&D) price control for the period 2002 - 2007. A great deal of effort by both Ofreg and NIE went into exploring the issues which a new price control needs to address and the process was clearly improved by the political context within which it took place.

Devolution has begun to provide the Electricity Supply Industry and Ofreg as its regulating body with policy preferences to guide the way in which we should move. I greatly appreciated the commitment which Sir Reg Empey and the Department of Enterprise, Trade and Investment (DETI) Committee brought to the development of the energy industries of NI. The clear support by the Northern Ireland Assembly (and the Executive) for the North-West (N/W) gas pipeline and the new power station at Coolkeeragh has been crucial. Without this support, it is doubtful if the new power station which NI will clearly need soon would be built. In addition, the Executive and Ministers have set about eradicating fuel poverty with a vigour and sense of commitment which, in the past, had been totally lacking. From this flowed the Executive's call for the EEL to be increased to £5 per annum per customer - an amount which will raise £3.4m per year and provide a valuable complement to the public monies which are directed at eradicating fuel poverty.

So while it was a bad year - the worst since 1996 in terms of price - there was certainly grounds for optimism that by the end of 2001 the prospects for 2002 and beyond would begin to look better.





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Competition and Regulation

Introduction

During the course of 2001, Ofreg continued to implement the process of electricity market liberalisation begun in 1999 when the European Directive on the IME came into force. The Directive required significant changes to be made to the electricity trading arrangements in place in NI.



The Directive

The EU IME Directive was intended to achieve a number of aims, deriving from the promotion of an internal electricity market in Europe, and hence leading to price convergence across the member states by promoting the development of structural changes to encourage competition. The required licence and legislative amendments to modify the NI electricity market to meet the Directive's requirements were put in place in 1999, and in the course of 2000 and 2001, further development of the trading and settlement system took place.

Market Opening

A phased liberalisation from 26.4% of demand in 1999 to 35% of demand by 2003 took place. In NI the target level was achieved in April 2001, ahead of schedule. In practice the liberalisation now allows those customers which comprise the first 35% of total electricity demand in NI to have a choice of not only retail supplier, but also wholesale generation provider - in effect these "eligible" customers (around 750 in total) have bypassed the wholesale generation tariff (the Bulk Supply Tariff "BST") established at privatisation and charged to all other customers. During 2001 one STS, Powergen, withdrew from the eligible customer market, leaving the market to be supplied by the Electricity Supply Board (ESB) and Energia.

Sources of Wholesale Energy

During 2001 the generation market in NI faced a number of challenges. Firstly, Premier Power withdrew one of its two independent generating sets (110MW) from the market, and secondly the high gas prices, which developed in the latter part of 2000, continued and affected the competitiveness of its remaining independent gas fired generation. The result was an overall rise in the wholesale cost of power to the eligible sector as compared to the previous year. Power Station West, owned by AES continued to sell the output of one 60 MW coal set into the market. In overall terms eligible customers were still paying less than the BST for their wholesale power. The gas price rise demonstrated the need to have a portfolio of different generation sources, and the consequential exposure of the NI eligible market to gas price shocks.

Renewable Generation

The market for renewable electricity sales in NI is open to competition, and in order to stimulate the development of such trades, Ofreg and NIE agreed to release the output of the Non Fossil Fuel Obligation (NFFO) contracts for sale to suppliers. NIE was required by legislation via two successive NFFO Orders in 1993 and 1996 to contract for renewable energy and was permitted to recover the excess cost of such energy from customers.

A successful auction was held in March 2001, with the output of the NFFO generators being sold to second tier supply companies. This had the effect of both reducing the excess cost of NFFO energy borne by all customers through the Public Service Obligation charge, and allowed suppliers and customers to access the benefits of the CCL rebate available to businesses which bought energy from renewable sources.

During the year Ofreg also convened a representative group made up of the electricity and renewable energy industries, and the DETI, in order to discuss means of encouraging the further development of both large scale and small-scale renewable electricity generation and trading. TRIG met several times in 2001, and the Director General of Electricity Supply (DGES) published a consultation paper on options for renewable trading. The work of the Group will continue until a suitable trading mechanism has been developed for renewable electricity which allows suppliers to sell green energy to any customer in NI, including those currently in the non-eligible sector.



Interim Trading Arrangements

The trading arrangements as introduced in 1999 continued to operate in 2001, and were subject to operational modifications as approved by the IME Steering Group, chaired by the DGES, and made up of industry representatives and DETI. The IME Steering group met a number of times during the year, and continued to serve as the forum for the discussion of further market liberalisation.

Electricity Interconnection

In April 2001, the second full year of interconnector trades with the Republic of Ireland (ROI) via the North-South Interconnector (N/S Interconnector) commenced. 120 MW of capacity was available for export to the ROI, with 50 MW being available in the opposite direction. The NIE System Operator allocated the export capacity via auction, which was taken up by two subscribers, ESB and Energia for the period 1 April 2001 to 31 March 2002.

During this period Ofreg also began to consider the initial release of import capacity on the soon to be commissioned Moyle (Scotland - Northern Ireland) Interconnector. The initial capacity available via the new link, due to become operational on 1 January 2002, was allocated in early 2001 for the period 1 January 2002 to 31 March 2002. This allowed both an initial period of operation and tied in with the duration of the N/S Interconnector capacity period. The successful bidders were Energia, Eirtricity and ESB.

In June 2001, the DGES published a consultation document in relation to the Moyle and N/S Interconnector trades from 1 April 2002, and invited responses from interested parties. This process culminated in publication of the DGES's decision paper in autumn 2001, and the holding of a simultaneous auction process in December 2001 to allocate both Moyle import and North/South export capacity. The auction successfully allocated capacities on both Interconnectors. The capacity auction process was undertaken by System Operator Northern Ireland (SONI) with the approval of the DGES, and was designed to allocate third party rights to Interconnector capacity.

There were four successful bidders. Eirtricity obtained Moyle (import) capacity and N/S (export) capacity. ESB obtained import capacity on the Moyle Interconnector.

Energia (an NIE affiliate) obtained Moyle (import) capacity and N/S (export) capacity. Scottish Power obtained import capacity on the Moyle Interconnector.

All import capacity on the Moyle Interconnector was allocated (275 MW in winter, 175 MW in summer). All the available three year Moyle import capacity (50 MW winter; 30 MW summer) was allocated. Green import capacity was also allocated.

Not all export capacity on the N/S Interconnector was allocated. Both export and green export were under-subscribed.

No bids were received for Moyle Export (NI – Scotland) capacity.

Moyle Equivalent Energy

As a result of the construction of the Moyle Interconnector, NIE agreed to enter into a take-or-pay contract with Scottish Power whereby it would import the energy equivalent of 125 MWs of capacity from Scotland, for a period of seventy months from the date of commissioning. NIE would in the normal course of events recover the cost of this contract from franchise customers. However, given that this would result in energy purchase in excess of NIE's needs and would add to an already high cost of generation, the energy equivalent to the Scottish Power contract was made available by auction to independent suppliers for resale into the eligible market. The intention was to both reduce the liability of the franchise market and to stimulate competition in the eligible sector by increasing the amount of wholesale generation available to the market. The auction to allocate the Moyle Equivalent Energy (MEE) took place in November 2001, following consultation. The energy will be available to suppliers from 1 April 2002. The successful bidders were Energia and ESB.

Other steps towards market liberalisation

During the course of 2001 the future of the electricity market in NI was the subject of debate at political and ministerial levels. In early 2001 the Minister for Enterprise, Trade and Investment, Sir Reg Empey, asked that the DGES prepare a report into the potential for further market opening beyond the 35% already achieved in 2001.





The DGES subsequently published a report in May 2001 entitled **“A Time to Win”**, which discussed potential means of full market opening. This report, amongst other studies will assist DETI in developing its' Energy Strategy prior to new legislation in 2002/03.

Price Control Reviews

Transmission and Distribution Business

During 2001 the DGES published a number of consultation papers relating to the price control review of the T&D business of NIE which will be operational from April 2002 until March 2007. The November 2001 consultation paper presented the issues to be considered in formulating the new price control. The paper had as its theme the issue of divergence between T&D prices in NI and the average for GB since privatisation of NIE in 1992/93.

Over time T&D prices are the sum of three main components; allowed operating costs, allowed capital expenditure and a return on the regulatory asset base. Ofreg has appointed consultants to examine NIE's operating cost and capital expenditure plans and will establish what the efficient level for these costs should be going forward.

Ofreg will derive an allowance for NIE T&D revenue for the price control based on:

- i) Efficient operating expenditures
- ii) Capital expenditure forecasts - hence a path of regulatory asset values
- iii) The cost of capital to use as the appropriate return

These will be combined to form the path of T&D prices over the next five years

Initial proposals for the price control period are due to be published in early 2002 with final proposals due shortly after. The proposals will seek to minimise the cost of T&D over the third regulatory period and hopefully establish convergence/eliminate divergence of T&D prices between NI and GB.





Consumer Affairs

Disruption to Electricity Supply

Electricity consumers will remember the early months of 2001 for the severe disruption to supply which impacted most profoundly on those consumers in Counties Antrim and Down, especially around the foothills of the Mournes where roads were inaccessible with snow drifts up to eight feet deep. Within these two counties it was the Downpatrick and Mourne areas that were worst affected with the greatest network damage and consequently the greatest customer inconvenience.



Tuesday 27 February began with severe gale force winds, which quickly increased to storm force before dawn. The storm was accompanied by rain, which turned to sleet culminating in wet snow, and with falling temperatures created ice accretion on power lines. The ice accretion and strong winds caused severe damage to NIE's network, resulting in 100,000 customers losing their supply. Once again, as happened during the Boxing Day Storm of 1998, NIE's communication system failed to live up to expectations leaving many consumers frustrated and irate. However it must be stated that on this occasion the communication failure was mainly attributable to human error.

Restoration of supply was hampered by the continuing atrocious conditions but NIE were able to reconnect 94% of those off supply within 24 hours, although many individual customers were off supply for a number of days due to the difficulty that NIE engineers experienced accessing faults.

NIE moreover did its best to make amends to customers for the inconvenience caused by making compensation payments, which they were not legally obliged to do.

The DGES commissioned an in-depth report from consulting engineers into NIE's performance and this report and recommendations were published in May 2001. The recommendations, along with those in NIE's own Storm Report were progressed over the following months and have led to, for example, a network refurbishment programme in the Downpatrick and Mourne areas. Unfortunately progress on this was hampered towards the end of the year with the outbreak of foot and mouth disease leading to restrictions in the movement in manpower. Furthermore steps were also taken by NIE to ensure mechanisms were built in to its communications procedures to avoid a repeat of the human error on 27 February.

Standards of Performance

The promotion of good customer service is a major objective of the DGES. Standards of Performance which first came into force on 1 January 1994 and were subsequently revised and improved in October 1999 are an

important element in the regulatory framework and aim to ensure that NIE maintains a high level of service for electricity customers in key service areas.

There are 2 types of Standards:

- * Guaranteed Standards (GS) set service levels which must be met in each individual case. If the Company fails to provide the level of service required, it must make a payment to the customer affected.
- * Overall Standards (OS) cover areas of service where it is not appropriate to give individual guarantees, but where customers in general have a right to expect from the Company predetermined minimum levels of service.

Ofreg produces an Annual Report on NIE's Customer Services Standards, which reflects how the company performed in the context of:

- (i) Guaranteed and Overall Standards;**
- (ii) exemptions from making payments;**
- (iii) complaints from consumers; and**
- (iv) disconnections for non-payment.**

The Report for the period ended 31 March 2001 showed that NIE made 17 Guaranteed Standard payments.

Although many customers were off supply for more than 24 hours as a result of the snowstorm at the end of February 2001, NIE was able to claim exemptions from making payments. However NIE made compensation payments equivalent to the Guaranteed Standard payment where loss of supply extended for 24 hours or longer.



Details of the Guaranteed Standards are described in Table X below.

Table X - Guaranteed Standards of Performance

Service	Performance level	Penalty payment
1 Replacement of NIE main fuse after failure	Within 4 hours (3 hours during a working day)	£25
2 Restoring supply after distribution faults	Within 24 hours of supplier becoming aware of fault	£50 Domestic customers £125 non-domestic customers plus £25 for each additional 12 hours
3 Providing supply and a meter	Within 2 working days (domestic customers) or within 4 working days (non-domestic customers)	£25 Plus £50 (domestic) or £125 (non-domestic) for failure to keep appointment
4 Estimate of connection charges	Within 7 working days for connections to existing lines and 15 working days for others	£50
5 Notice of planned supply interruption	3 days	£25 domestic customers £50 non-domestic customers
6 Investigation of voltage complaints	Within 7 working days	£25 plus £25 for failure to keep an agreed appointment
7 Investigation of meter accuracy disputes	Within 7 working days	£25 plus £25 for failure to keep an agreed appointment
8 Responding to queries on charges or payments	Within 5 working days	£25
9 Appointments to be offered and kept	Between 8.30am-1.00pm or 12.00-5.00pm, Mon-Fri	£25
10 Making of payments owed under the Standards	Within 10 working days	£25
11 Dealing with a problem with your pre-payment meter	Within 4 hours (3 hours during a working day)	£25





Overall Standards

The Overall Standards set minimum levels of performance, which NIE is required to achieve over a 12-month period in specific service areas. A description of these service areas is given in Table Y below.

Overall Standards of Performance 2001 - 2002

Service	Performance Level
1a. Reconnection within 3 hours 1b. Reconnection within 24 hours	87% within 3 hours 100% within 24 hours
2. Correction of voltage problem	100% within 6 months
3a. Connection to the systems (domestic) 3b. Connection to the systems (non-domestic)	100% within 30 working days 100% within 40 working days
4. Reconnection after default	100% the next working day after arrears are paid
5. Meter relocation	100% within 15 working days
6. Changing meter	100% within 10 working days
7. Meter reading	99.5% at least once a year
8. Response to letters	100% within 10 working days



Although there is no obligation to make a payment to the customer if NIE fails to meet an Overall Standard, the Company has a duty to conduct its business in such a way as can reasonably be expected to lead to achieving the Standards.

In the interests of public accountability the DGES has directed the Company to provide customers with information on its performance under the Overall Standards. This serves to incentivise the Company to achieve the required level of service.

Codes of Practice

NIE is obliged by its licence to publish certain Standards of Service in Codes of Practice. The Codes specify in clear and simple language the services which customers can expect. They are approved by the DGES. The 7 Codes provide information on:

- **using electricity efficiently in your home**
- **using electricity efficiently in your business**
- **services for the elderly and people with disabilities**
- **paying for your electricity**
- **using your Powercard meter**
- **making a complaint**

- **dealing with tariff customers in default (not available to the general public but available to Advice Agencies)**

Customer Complaints

Ofreg deals with complaints from customers dissatisfied with NIE's service but only after the complainant and NIE are unable to resolve the matter to the complainant's satisfaction.

In the reporting period 1 January 2001 to 31 December 2001 Ofreg dealt with 32 complaint cases, a marked fall in numbers from previous years. However the number of customer enquiries to Ofreg and the number of referrals (cases referred to NIE before a formal complaint is made) were substantially up on previous years. Whilst complaints dealt with by Ofreg cover a range of categories, the most frequently complained about services are quality of supply and billing/accounts.

Ofreg achieved some notable successes on behalf of customers who had complained during 2001. In one case resolved in February the customer received a payment in excess of £2000 from NIE. In another case a commercial customer received £1000 as a result of Ofreg's intervention and in yet another case a customer was paid wayleave arrears for 13 years. In all, Ofreg's intervention saw the resolution of most of the complaints made in favour of the customer with payments being made in a dozen cases.





Social Action Plans

Ofreg produced Social Actions Plans in 1998 as a result of the Government's Green Paper **"A Fair Deal for Customers"**. In February 2001 the DGES published a consultation paper reviewing these earlier plans and invited comments on a number of specific questions with a view to using responses provided to inform future Social Action Plans. On the basis of comments received the Director General issued a draft proposals paper **"Social Action Plans for Electricity and Gas Customers : Improving Social Obligations; a Draft Proposal Document"** in September 2001 in which he discussed submissions received and invited further comment. In the light of this further comment the DGES will issue his final proposals in early 2002 to strengthen social obligations and to support disadvantaged customers.





To: The Department of Enterprise, Trade and Investment

I enclose my Report for the year ended 31 December 2001 as required by Article 32 of the Gas (Northern Ireland) Order 1996 (the Gas Order).

I confirm that during the period of this Report,

- i) I made no references to the Competition Commission.
- ii) I made no final or provisional orders; and
- iii) I received no general directions under Article 27(2) of the Gas Order.

D B McIlldoon

Director General
of Gas for Northern Ireland

gas





The Natural Gas Industry in Northern Ireland

Statement from the Director General of Gas for Northern Ireland

My duties are set out in the Gas Order. The Gas Order requires me to carry out my duties in the manner best suited to promote the development and maintenance of an economic, efficient and co-ordinated gas industry in NI. The natural gas industry in NI is still in its infancy. At present the Greater Belfast and Larne areas are the only areas in NI that enjoy the social and environmental benefits of natural gas. Given this I see the development of the natural gas industry as a priority.

During 2001, I have worked to develop and extend the natural gas industry on two fronts:

- i) the natural gas industry within Greater Belfast; and
- ii) the extension of the natural gas network beyond Greater Belfast.





Within the Greater Belfast area I am happy with the progress that Phoenix Natural Gas Ltd (Phoenix) has made. During 2001, Phoenix received 12805 requests for connections, over 90% of which came from domestic customers. It remains on track to complete construction of the distribution network in owner occupied areas by 2004.

Following the announcement in 2000 from the Northern Ireland Housing Executive (NIHE) that in districts where natural gas is available it will be the first choice of fuel for any new heating systems in NIHE properties, I am very pleased to see Phoenix working closely with the NIHE through synchronising its construction programme with NIHE's programme to refurbish heating systems.

Under Phoenix's licence I have the ability to revise its charges for the conveyance of gas throughout the network. During 2001 Ofreg staff and consultants have engaged in a rigorous assessment of Phoenix's costs and volumes. This will enable me to reach a decision early in 2002 on what should be the most efficient set of conveyance charges. As the conveyance charge makes up a considerable proportion of the final price this should give comfort to Phoenix's customers that the prices they face are fair.

From 1 January 2002 I will also have the ability to limit supply prices charged by Phoenix to smaller customers. This power is exercisable only if smaller customers are not sufficiently protected by competition. Therefore during 2002 I intend to complete an investigation into the level of competition in the market for fuel supplied to smaller customers within Greater Belfast.

For some of Phoenix's largest industrial customers, 2001 saw the end of Phoenix's exclusive right to supply gas to them. There are currently two alternative gas supply licence holders in Greater Belfast, Viridian Energy Supply Limited (Energia) and Elf Gas and Power. Competition should benefit customers and as it is my statutory duty to promote it, I will consequently continue to facilitate new entrants to this market.

Great strides have been taken towards extending the natural gas network beyond Greater Belfast (See Map Below). On 27 March 2001 I received an application for a gas conveyance licence from Bord Gáis Éireann (BGE) and Questar Regulated Service Company (Questar). The

application detailed a proposal for a two-phase project. Phase one is the construction of a pipeline running between the existing Ballylumford to Tollymore Pipeline and Coolkeeragh Power Station. This will be known as the N/W Pipeline. Phase 2 is the construction of a gas interconnector between the ROI network and the N/W Pipeline.

Following negotiations with BGE and with the consent of DETI, on Friday 14 December, I gave notice of my intent to issue BGE with a gas conveyance licence.

This project will facilitate the development of distribution networks in the towns along the route of the pipelines. Within the coming year I intend to seek expressions of interest from gas companies interested in town distribution. Natural gas will bring considerable environmental, economic and social benefits to the towns. It is the least polluting fossil fuel and its availability in an area provides greater fuel choice for industry. Natural gas also provides domestic customers with the opportunity to convert from inefficient central heating systems to highly efficient gas condensing boilers. Furthermore interconnection between the ROI and NI networks will also improve security of supply for the island of Ireland.

On 21 September 2001 the Executive and the ROI Government simultaneously announced their support for the building of both the N/W Pipeline and the Interconnector. The ROI government has approved a significant contribution towards the package of grant aid offered by the Executive. Such strong government support for this project should be applauded and indicates the Executive's appreciation of the environmental, social and economic benefits of extending the gas network in NI.

Chapter 2 discusses in greater detail the developments affecting the NI Gas Industry. Chapter 3 comments on the future issues facing the Industry.





Development and Regulation of Northern Ireland's Gas Industry

Background

The privatisation of NI's electricity supply industry in the early nineties provided the catalyst for the development of a natural gas industry. At that time the Department of Economic Development (DED), the predecessor of DETI, made the sale of Ballylumford Power Station, NI's largest station, to British Gas conditional upon its conversion from oil to gas firing. To fulfil this condition Premier Transco (now known as Premier Transmission Limited), at that time a wholly owned subsidiary of British Gas, built a pipeline linking NI to Scotland. This development was facilitated by the construction in 1993 by BGE of a pipeline linking the ROI's natural gas transmission grid to that of the United Kingdom (UK). The BGE pipeline stretched from Moffat in Scotland to Brighthouse Bay near Dublin. Premier Transmission Limited (PTL) decided to link the Northern Ireland pipeline into the BGE pipeline at Twynholm in South West Scotland. The construction of PTL's 135km transmission pipeline was completed in August 1996.





The construction of the Scotland to NI Pipeline (SNIP) also provided the opportunity to develop a downstream natural gas market. The Greater Belfast area was selected for the location of this market and in September 1996 Phoenix, at the time another wholly owned subsidiary of British Gas, was awarded a licence for the conveyance and supply of natural gas in this area.

In order to link Belfast with SNIP a 26-km high-pressure transmission pipeline was constructed from Ballylumford Power Station to Tollymore, just north of Belfast. From here Phoenix were able to link into the old town gas network, which was closed in 1988 and which was purchased by them from Belfast City Council. Phoenix hoped that once refurbished, this network could be used, thereby reducing the cost of building an entirely new network and at the same time minimising disruption to traffic and pedestrians. However in many areas the pattern of present development bears little or no relation to the old network and the wholesale laying of pipes was needed.

In order to facilitate further development in Greater Belfast the Director General of Gas for Northern Ireland (DGG) gave his consent in August 1997 to the construction of the 'Lough Crossing' transmission pipe. This 8km steel pipeline from Tollymore to Knocknagoney was completed in 1998 and in addition to reinforcing gas supplies to the centre of Belfast it brought natural gas to the North Down area.

Currently the operators of Northern Ireland's natural gas infrastructure are PTL and Phoenix. PTL is now owned 50% by British Gas Energy Holdings Limited (BG Energy Holdings) and 50% by KeySpan. Phoenix is owned by BG Energy Holdings, KeySpan and East Surrey Investments Ltd, in a 51%/24.5%/24.5% split.

BG Energy Holdings is a 100% subsidiary of British Gas Group Plc (BG Group Plc). KeySpan is the second largest natural gas distribution utility in the USA and delivers gas to 2.5 million customers in the New York and Boston areas. East Surrey Investments Ltd is a wholly owned subsidiary of East Surrey Holdings Plc. This group is engaged principally in the supply of drinking water in the London Boroughs of Croydon and Sutton, East Surrey and parts of Kent and Sussex through its subsidiary Sutton and East Surrey Water Plc.

Regulation

The Gas Order, enacted on 10 June 1996, contains the primary legislation governing the natural gas industry here. It provided for the appointment of the DGG who is responsible for issuing licences (subject to the consent of DETI), and for monitoring, enforcing and where appropriate, modifying these licences. The DGG is required to exercise these functions in the manner best calculated to:

- Promote the development and maintenance of an efficient, economic and co-ordinated gas industry in NI.
- Secure that licence holders are able to finance the carrying out of their licensed activities.

Subject to these primary duties, the DGG is required to:

- Protect the interests of consumers of gas supplied by licensees.
- Protect the interests of licence holders in respect of the prices at, and the other terms on, which any services are supplied by one licence holder to another.
- Promote the efficient use of gas supplied to customers.
- Protect the public against the dangers arising from the conveyance, storage, supply or use of gas.
- Facilitate competition between persons whose activities consist of or include conveying, storing or supplying gas.
- Take into account in exercising these functions the effect on the environment.

Mr Douglas McIlldoon, who is also the Director General of Electricity Supply for Northern Ireland, currently holds the position of Director General of Gas for Northern Ireland. This reflects the synergy between electricity and gas in NI, stemming from the use of natural gas in electricity generation.

Prior to the appointment of the DGG, three licences were granted by DETI to: British Gas Trading (BGT), Phoenix, and PTL. These licences provided the foundation for the structure and development of the NI natural gas industry.



The BGT licence authorises the supply of gas up to and within the boundaries of Ballylumford Power Station. Since 1996, Premier Power (owners of Ballylumford Power Station), Amoco and NIE have received similar supply licences. Under its licence, PTL is authorised to convey gas from the low water mark at Castle Robin Bay to the Pressure Reduction Station at Ballylumford.



At the initiation of NI's natural gas industry Phoenix was granted a Combined Conveyance and Supply Licence. This licence permits Phoenix to convey gas within its licensed area (essentially the Greater Belfast and Larne areas) and from other areas of NI to the licensed area. It also allows Phoenix to supply gas to premises in its licensed area. Under the terms of the licence Phoenix was granted various time limited exclusive rights. More specifically Phoenix has the exclusive right to convey gas in its licensed area for a period of twenty years. It also has exclusive rights to supply gas to customers consuming more than 75,000 therms per annum for three years on a district by district basis with supply exclusivity rights for all customers expiring on the 31st December 2004. Where gas consumers consuming more than 75,000 therms are supplied before the relevant district development start date, as set out in Phoenix's licence, it has been agreed with Phoenix that in such cases exclusive supply rights will last for three years on a customer by customer basis.

This regulatory framework reflects the requirements of an emerging market and the need to provide incentives for companies to develop the necessary infrastructure. The regulatory regime also ensures that the charges levied by Phoenix and PTL for the conveyance of gas through their

respective networks are fair, equitable and transparent.

Developments in 2001 concerning Premier Transmissions Limited

1. Upgrade of Compressor facilities

When the initial forecasts for gas consumption in NI were made, it became apparent that in order to meet the forecast volume growth extra compression would be required to increase the capacity of the SNIP pipeline. Beattock, close to the point where the pipeline system connects to GB's transmission system, was chosen as the appropriate location for a new compressor station and work was initiated in 1998. Construction was completed in 2000 and the extra capacity became available in February 2001.

2. Network Code

PTL's Network Code became operational in October 2001. The purpose of the Code is to set out the terms and conditions for the conveyance of gas through PTL's network, in a transparent manner and thereby ensuring that each gas shipper is subject to the same conditions. The underlying principle is that the terms of the Network Code should facilitate the efficient and economic operation of the network and ensure that there is effective competition between gas shippers using the network.

Developments in 2001 concerning Phoenix Natural Gas

1. Publication of the 2000 Development Plan Report.

Phoenix is required under Condition 1.2.2 of its combined licence for the conveyance and supply of gas to submit to the DGG an annual Development Plan Report by the beginning of March each year. This report details Phoenix's progress in developing its network and in supplying gas in the licensed area for the immediately preceding year and sets out Phoenix's planned development of the network and its gas supply marketing plans for the next three years. During 2001, Phoenix published their Annual Development Plan report for 2000. A full copy of this report can be obtained from Phoenix Natural Gas Ltd, 197 Airport Road West, Belfast, BT3 9EX. Below are some points from the Development Plan.



Number of connections made during the year to 31 December 2000:

Annual Load (Therms pa)	<2,500	5,500-75,000	>75,000
Domestic	9,869		
Non Domestic	608	473	16

During 2000 there was a total length of 473 km of distribution pipeline installed. This means that by the end of 2000, the total number of premises connectable to Phoenix's network was 145,091 and the total number of premises connected at the end of 2000 was 23,601.

The Table below shows details on lengths of distribution pipeline installed during 2000.

District	Distribution Pipeline	
	Operational (Metres)	Non Operational at 31/12/1999 (Metres)
Newtownards	12429	1039
West Belfast	1623	683
South Belfast	25318	3280
North and West Belfast	59667	5434
East Belfast	109558	3955
Lisburn	48400	4493
Larne	9369	0
Carryduff & Castlereagh	56223	2309
Duncrue	1283	0
Harbour	5381	436
Newtownabbey	32316	3272
North Down	48693	1795
Carrickfergus	33384	2675
Total	443644	29371



2. Phoenix Distribution & Works Contract

Following an open competition, on 1 July 2001 Phoenix announced the winners of its distribution and works contract. The contract was awarded to McNicholas Construction Services Limited (McNicholas). Although McNicholas were the holders of the previous distribution and works contract this is not a continuation of the old contract. In its dealings with Phoenix, McNicholas will be located at Phoenix's offices, and for the purposes of Phoenix work McNicholas will now be rebranded as Phoenix Operations. It is hoped that the new relationship between McNicholas and Phoenix will help the company to continue to provide value to customers.

3. Conveyance Price Control

The final price of gas as charged by Phoenix's supply business to end customers is made up of several components, the most significant of which is the price charged by Phoenix's conveyance business to its supply business for the conveyance of gas through the network of pipes.

Conveyance is a natural monopoly activity in that it would not make economic sense to duplicate the network. As a result Phoenix's conveyance business enjoys monopoly power. To ensure that this monopoly power is not abused, Phoenix's licence stipulates that conveyance charges will be set according to the methodology and formula laid down in Condition 2.3.3 of the licence. This involves Phoenix and the DGG agreeing at the outset capital expenditure, conveyance volume and operating cost forecasts for the period of the formula, which lasts until 2016. Based on these forecast parameters, the DGG sets a maximum allowed price per therm for each customer category that will deliver a real pre-tax rate of return on cashflows of 8.5%. The forecasts are re-examined and a new price control set on a five yearly basis.

The first price control previously agreed was for the period commencing 1996, with a review of forecast parameters due in 2001. The first review of forecast parameters is nearing completion. Ofreg staff and

consultants have carried out a thorough review of Phoenix's capital and operating expenditure and volumes. The amended price caps are due to be introduced in early 2002. This should reassure Phoenix customers that the eventual price, which they pay for gas, is fair and cost reflective.



4. Phoenix Prices During 2001

a) Domestic

On 28 July 2000 Phoenix restructured its domestic prices and at the time it introduced a promise to keep prices stable over the following three years i.e. up to September 2003. In August 2001 Phoenix kept this promise by introducing a domestic price increase below the prevailing rate of inflation. The price increase of 2.4% became effective on 1 October 2001 in line with the price stability commitment. Stable prices are good news for existing customers and will increase the attractiveness of natural gas.

b) Industrial and Commercial

Phoenix's commercial tariff covers properties whose annual consumption is between 2,500 and 25,000 therms. From January 2001 the price increased from 38.67p per therm to 41.02p per therm, the standing



charge of 33p per day remained unchanged. Tariffs are not announced for large industrial and commercial consumers using over 25,000 therms per annum as individual contracts are negotiated for these customers.

5. Purchase of Phoenix Shares by East Surrey Water

On 28 February 2001 a 24.5% share of Phoenix was sold to East Surrey Investments Limited a wholly owned subsidiary of East Surrey Holdings (ESH). BG Group will remain the majority shareholder with 51% of the company while Keyspan Corporation retains its 24.5% shareholding. There was no change in the management of the company.

ESH is an experienced utility company. The core operating company of the group is Sutton and East Surrey Water, a regulated water supplier which provides services to 250,000 domestic properties and 18,000 commercial properties. Its licence area covers the London Boroughs of Croydon, Merton and Sutton, East Surrey and parts of Kent and Sussex.

6. Standards of Performance

Under Conditions 2.9 and 3.16 of its licence, Phoenix is required to establish standards of performance and to take all reasonable steps to ensure the achievement of these standards. The standards of performance relate to

the conveyance and supply of gas to consumers, the connection of domestic customers, special arrangements for pensioners and the prevention of escapes of gas in or into the premises of domestic consumers.

In June 1998 the General Consumer Council for Northern Ireland (GCCNI) gave its approval to a set of standards drawn up by Phoenix. At the time it was agreed that they would be reviewed after 3 years. During 2001 Phoenix and GCCNI have discussed the standards in order to update them and make them more accountable. It is hoped that these discussions will be completed early in 2002 and that a new set of performance measures will be in place before 2003.

7. Social Action Plan

In May 1998 the DGG published an Action Plan to achieve efficiency, choice and fairness in the provision of gas to disadvantaged customers. The Action Plan was a response to the Government's proposals in the March 1998 Green Paper **'A Fair Deal for Consumers'**. At the same time the DGES issued a similar plan for disadvantaged electricity customers. Progress with each of the plans has been reviewed and in September 2001 a joint publication was issued entitled **"Social Action Plans for Electricity and Gas Consumers: Improving Social Obligations"**. This was a proposals





document aimed at exploring what further actions might be needed to build on the original plans. Final proposals will be published early in 2002.

More information on the Social Action Plans can be found in the Consumer Affairs section of this Report.

European Commission's Rules for the Internal Market in Natural Gas

On 17 August 2001 the DETI introduced a consultation document on their proposals for implementing the European Directive on common rules for the internal market in natural gas.

The Directive seeks to achieve the opening of a competitive market in natural gas in all member states. Its central requirement is an opening up of the gas supply market: Member States must open at least 20% of their gas market to competition immediately, the percentage will increase to 28% in 2003 and 33% of total annual gas consumption by 2008. It also requires them to introduce provisions for non-discrimination and third party access to pipelines and other essential facilities.

In NI a system of regulated third party access to pipelines with requirements for non-discrimination has been introduced through the Gas Order and the licences granted thereunder. In addition, within NI the degree of the opening of the market to competition already exceeds 33%, this is because Ballylumford power station, which is free to contract for its own supply of gas, currently consumes over 80% of NI's total gas consumption. It should also be noted that as far as the Directive is concerned the NI market is part of the UK market, which is already fully open.



The Directive must be taken into consideration when negotiating future licences to potential operators and developers of natural gas networks outside Greater Belfast, for example when considering periods of exclusivity which may be requested by developers. However if circumstances prove necessary the door remains open for NI to apply for derogation from certain conditions of the Directive from the European Commission (the Commission) and would be time limited to a maximum of 10 years from the date when gas first arrives in an area.

Licence Extensions

1) The Goals

Under the Gas Order the DGG must carry out his functions in such a manner as to promote the efficient economic and co-ordinated development of the gas industry in NI. It is with this duty in mind that the DGG has worked towards the goals of extending the natural gas industry beyond Greater Belfast to towns in the North West and South East of the Province.

Natural gas will bring important economic and social benefits to the towns. It is a versatile fuel for industry and its availability in the North West and South East of the province will send important locational signals to industry. Its availability will also provide NI with the opportunity to reduce carbon emissions, as it is the least polluting fossil fuel. Natural gas will also help to alleviate social problems such as excess winter deaths because it will provide domestic customers with the opportunity to convert from inefficient heating systems to efficient natural gas central heating.

2) Background

a) The North West

The most effective way to deliver gas to the district towns in the North West of the province is to find a large anchor load customer along any proposed route. This customer needs to be capable of consuming sufficient quantities of gas to make a transmission pipeline to the area financially viable. As early as 1998 the Caminus study recognised that a



Combined Cycle Gas Turbine Power Station (CCGT) would be essential to the economics of any extension to the North West of the province. During 2001 the DGES gave Coolkeeragh Power Limited and ESB International Investments the go ahead to construct a CCGT on the site of the existing Coolkeeragh PowerStation near Londonderry. This CCGT should require a sufficiently high level of volumes to provide an anchor load for the N/W Pipeline. At this time, those parties who had submitted applications to build the North West pipeline were invited to continue their applications, also the field was left open for new applications.

b) The South East

It has long been recognised that the best way of getting gas to the towns in the South East of the province is for the networks in NI and the ROI to become interconnected. In addition interconnection between the two networks will provide the Island of Ireland with additional security of supply, increased volumes of gas and more opportunities for competition in gas markets.

At the start of the year two bidders, PTL and Questar, had submitted proposals for the building of a North-South N/S Pipeline. Both proposals envisaged taking gas from the SNIP to customers in ROI. Both proposals hinged on the need to secure contracts from customers in ROI willing to purchase enough capacity to make the pipelines financially viable.

During 2001 the ROI government gave the go ahead to the construction of a second natural gas interconnector between Scotland and Dublin (IC2). The availability of gas from IC2 and from an off shore gas field to be developed at Corrib near Galway meant that neither PTL nor Questar were able to find the customers they needed to proceed.

3) Developments in 2001

On 27 March 2001 the Director was pleased to receive a proposal from BGE and Questar capable of achieving the goals of getting gas to both the North West and South East. The proposal was for a two-phase project, phase 1 being the construction of a pipeline between the existing Belfast to Torytown pipeline and Coolkeeragh PowerStation. This pipeline will be known as the North West Pipeline. Phase 2 is the construction of a South North pipeline between the IC2 landing point and the N/W Pipeline.

On 21 September 2001 the Executive and the ROI Government simultaneously announced their support for the building of both the N/W Pipeline and the N/S Pipeline. The executive approved a package of grant aid and the ROI Government agreed a considerable contribution to the package.

On Friday 14 December the DGG gave notice of his intent to issue BGE with a licence to convey gas through the proposed pipelines.





3

Future Developments for Northern Ireland's Natural Gas Industry

Supply Price Control

For natural gas customers in the Greater Belfast market consuming less than 75000 therms in a year, competition from other natural gas suppliers beside Phoenix will not start until 31 December 2004. This grants Phoenix an exclusive right to supply these customers (all domestic and small industrial and commercial customers) until then. When the Phoenix licence was agreed it was felt that competition from other domestic fuels would be sufficient to protect the interests of these consumers. However at that time it was felt prudent to include a safeguard in the event that this is no longer the case. Section 3.5.1 of the licence provides that if after 31 December 2001 the interests of customers, whose consumption of gas is not likely to exceed 75000 therms per year, are not sufficiently protected by competition, either from natural gas suppliers or from alternative sources of fuel, the DGG has the option to agree with Phoenix a maximum supply price.





During 2002 the DGG intends to assess the energy market in Greater Belfast and especially the effectiveness of competition from other sources of fuel in protecting Phoenix's small customers interests, to determine if there is a need to invoke this power.

Proposed Energy Bill for Northern Ireland

Following the introduction of the Utilities Act in Britain, DETI are in the process of considering an Energy Bill for Northern Ireland. The new Bill will follow on from some of the ideas in the Utilities Act 2000.

The Utilities Act 2000

In GB, the Utilities Act 2000 abolished the Offices of the Director General of Electricity Supply and Gas Supply. It created a new Gas and Electricity Markets Authority (GEMA) to govern the Office of the Gas and Electricity Markets (OFGEM). All of the existing functions were transferred to the new Authority with the exception of those transferring to a new Gas and Electricity Consumer Council to be known under the trading name *Energywatch*.

The Utilities Act 2000 put consumers at the heart of negotiation by placing a principal objective on GEMA and the Secretary of State for Trade and Industry to exercise their functions in a manner best calculated to protect consumer interests.

DETI has indicated that it plans to consult on new legislation for Northern Ireland during 2002.

Distribution and Supply of Gas to Consumers Outside the Phoenix Licensed Area

As already stated in Chapter 2, on 14 December 2001 the DGG gave notice of his intention to issue BGE with a licence to convey gas through transmission pipelines, to be constructed in the North West and South East of NI. This project will facilitate the building of distribution networks in areas along the route of the pipelines. In order to encourage this development the DGG intends to impose on BGE a duty to co-operate with parties interested in natural gas distribution and supply projects.

In the coming year the DGG intends to invite expressions of interest from private companies interested in gas distribution and/or supply projects to potential consumers outside the Phoenix licensed area in NI.

The DGG will seek to encourage these private companies to build networks capable of reaching as many potential gas consumers as possible. However it is acknowledged that those in rural dwellings or in small villages remote from gas pipelines are unlikely ever to be able to benefit directly from the spread of the natural gas network.



Transmission Tariff Restructuring in Northern Ireland

Once the N/W and N/S pipelines are completed, NI's natural gas infrastructure will be in the hands of three separate private companies each owning a portion of the NI Transmission Network.

The SNIP will continue to be owned by PTL. Phoenix will continue to own the Ballylumford to Torytown Pipeline and BGE will own the N/W and N/S pipelines. Under the current system each transmission pipeline owner will charge a separate tariff for the transmission of gas through each of the three pipelines. This would result in a situation whereby gas suppliers who have to transport gas through all three pipelines would be charged all three tariffs. They would also need to sign agreements with the three separate pipeline operators governing the operational regime of each of the pipelines. This pancaking effect would penalise customers located on the outskirts of the network. It could send



A working group has been formed to look into this problem, which includes representatives from BGE, PTL, Phoenix, the DETI and Ofreg. It will examine the possibility of a tariff system that would equalise the cost of gas transmission across the entire NI network. It will also examine the possibility of having a single operational regime.

The principle of equalised tariffs applies to other services such as electricity. However in a gas context the idea needs to be fully analysed to ensure that all relevant parties understand how it might work and the implications for existing and future gas customers.

The DGG's secondary duties include the duty to promote the efficient use of gas supplied to customers. To this end he is pleased that Phoenix has made efforts to promote the use of natural gas for Combined Heat and Power (CHP). CHP is a very efficient technology for generating electricity and heat together. Gas fired CHP is where electricity is generated on site by gas fired steam turbines and the excess steam/hot water from the turbines is put to good use. For example, it can be used for space or water heating.

There are clear economic benefits to CHP. The conversion efficiency of fuel to electricity and useful heat from CHP is up to 90%. This efficiency is much higher than for a conventional energy supply where electricity is generated mainly from large powerstations and steam/hot water are produced from on site boilers. For individual companies, CHP can represent savings to their energy costs of up to 30%. The high levels of efficiency achieved by CHP also bring environmental benefits, because as less fuel is burnt to produce a given amount of energy there will be lower emissions of the harmful gases associated with burning fossil fuels. CHP is particularly suitable for hospitals, leisure centres, universities and process manufacturing.

At the end of 2001 there were approximately 14 gas fired CHP installations operational in the Phoenix area. Phoenix estimates that so far NI business have saved more than £1 million and eliminated almost 90,000 tonnes of carbon dioxide emissions, with the use of CHP. In 2002 there are plans for many more CHP installations. It is hoped that 2002 will see two important steps forward for CHP in NI. Firstly Belfast City Council is interested in CHP and is looking into the advantages of CHP for use in facilities such as leisure centres. Secondly 2002 should see the completion of NI's first ever domestic CHP installation.





appendix



The Office for the Regulation of Electricity and Gas

Support for the DGE and the DGG is provided by the Office for the Regulation of Electricity and Gas (OFREG). Mr McIlldoon is in his third term of office which expires in September 2005. He continues to hold the two distinct offices provided for by the Electricity Order and the Gas Order. Each of the Orders has its own set of functions which are exercised independently by Mr McIlldoon acting as either DGE or DGG.



Administration

The number of staff in post at the end of 2001 was 23.

The Deputy Director General post which became vacant during 1999 remained unfilled throughout the year.

High turnover continued to be a feature of Ofreg's economist complement and the year saw the departures of Mike Archer, Jonathan McMinn, Anne Marie Scullion and Alan Smith. At 31 December **Mary McWilliams** headed up the Electricity Regulation Team supported by **Seamus O'Hare** and **Nessa McArdle**; Electricity Markets and Competition Branch headed by James Hutchinson, assisted by Emma Magill, dealt with matters concerning market development and implementation of competition in electricity trades; **Kevin Shiels** led the Gas Regulation and Market Development Team assisted by **Eamonn Corrigan**, **Sarah Brady** and **Darren Cranston**.

Leslie Adams is head of Consumer and Business Affairs and is responsible for the administration of Ofreg. He is supported by **Adrian Goodman** on Consumer Affairs and by **Gerry McNeill** as Office Manager who has responsibility for a range of duties including Finance, Licensing, IT and Premises. Ofreg's status as a non-ministerial Government Department means that Civil Service guidelines and procedures are followed in the administration of matters such as finance and personnel.

Gerry Donnelly is head of Ofreg's Competition Section which is responsible for matters arising under the 1998 Competition Act. He also handles a range of Energy and Consumer related issues including the promotion of Combined Heat and Power and Energy Efficiency. **Anne Mc Minnis** is secretary to the NICCE.

Finance

As a non-ministerial Government Department Ofreg's funds are voted by Parliament and accounted for each year through the Appropriation Account. The cost of running Ofreg in the financial year ended March 2001 amounted to £2,144,832. Expenditure details are outlined in the extract from the 2000 - 2001 Appropriation Accounts reproduced at the end of this Appendix.

Licence Fees

Ofreg's costs are recouped primarily from the annual fees paid by electricity and gas licensees. From 1 April 1998 the fees were reclassified as Appropriations in Aid and to give

effect to the re-classification DED gave the DGES a delegated authority to collect electricity licence fees on its behalf. No change was required to the arrangement for gas licence fees which are already collected by the DGG.

Electricity licence fees are calculated on the basis of a Determination made by the DGES in respect of his identifiable costs of electricity regulation which stipulates that one third of the total fees due should be charged to the generators, one third to transmission and distribution and one third to those engaged in supply.

Gas licence fees are calculated on the basis of a Determination made by the DGG in respect of his identifiable costs of gas regulation and will be apportioned on :-

- (i) the basis of 0.005p per total therm conveyed in the year prior to the year for which the DGG's costs are being recouped as measured by metering equipment installed at the Pressure Reduction Stations at Ballylumford and Tollymore; and
- (ii) an amount equal to the difference between 95% of the DGG's costs referred to above and the amount calculated at (i) above apportioned on the basis of an estimate of the amount of regulatory activity applicable to each respective licensee currently estimated at 80% for Phoenix Natural Gas and 15% for Premier Transco;

The DGG has also decided that holders of gas supply licences will be required to pay a minimum fee each year of £500.

The balance of the costs to be charged to gas supply licensees will be apportioned on the basis of supply measured in terms of total therms supplied or where this is not available on the basis of contracted supply.

The electricity licence fees in respect of the financial year ended 31 March 2001 totalled £2,100,000.

Gas licence fees amounting to £511,000 were collected in respect of the period 1 April 2000 to 31 March 2001.

Accountancy procedures are in place to ensure that electricity and gas licensees will be charged identifiable costs relating to electricity and gas regulation respectively.





NICCE

The Electricity Order places a duty on the DGES to establish a Consumer Committee for Electricity. The NICCE has a duty to consult with NIE about all matters that appear to the NICCE to affect the interests of customers or potential customers of NIE, to keep under review matters affecting the interests of consumers of electricity, to advise the DGES on any matter relating to the supply of electricity on which it considers it should offer advice or which has been referred to it by the DGES and to make reports to the DGES and to deal with certain complaints.

The NICCE's Chairman is appointed by the DGES in consultation with DETI and is paid on the basis of three days a week. The Chairmanship is a statutory appointment for a period not exceeding 4 years. The Committee has up to 9 members also appointed by the DGES following consultation with the Chairman. NICCE members are unpaid but receive expenses for attending meetings. The Chairman and the members are recruited in line with the new recruitment procedures laid down by the Commissioner for Public Appointments for Northern Ireland. Appointments are made after an open competition and are for a period of up to 3 years.

Resources for the NICCE are provided by Ofreg and are recovered via the public electricity supplier's licence fee.

The NICCE meets regularly to discuss issues raised by or on behalf of customers. The meetings are open to the public and are advertised in advance. The dates of meetings, minutes and agendas are available from the Committee's Secretary.

The NICCE report for 2001 follows at Appendix 2.

Publicity

Management of Ofreg's press and publicity involvement was handled by Carmah Communications.

A range of consultation papers and press releases was issued on electricity and gas issues and these are reproduced later in this report and also available on our website – <http://ofreg.nics.gov.uk>

The DGES and the DGG undertook media interviews and contributed to the press and periodicals on a range of topics.

As part of its ongoing campaign to heighten consumer awareness Ofreg participated in a series of shows including the Ideal Home Exhibition and the *Young at Heart Show*.



Public Register

Details of all Electricity and Gas licences and any modifications, revocations, directions, consents or determinations relating to them are contained in their respective public registers, which are held in Ofreg's office at 64 Fountain Street. Each can be viewed by the public, for a fee of £1.00, from 10.00am to 4.00pm Monday to Friday. Copies of licences and related documents are available for sale and are itemised in Appendix 4.

Payment Policy

Ofreg complies with prompt payment guidelines set out by Government which specifies payment within 30 working days. Ofreg endeavours to pay all creditors within 10 working days from receipt of invoice.

During 2000-2001, 95% of creditors were paid within 30 working days.

General

During the year Ofreg issued second tier licence packs to a number of prospective electricity second tier licensees. Information packs were issued to a number of students and visits were arranged for several others.

During the year, the issue of new electricity and gas licences together with the sale of documents resulted in an income of some £34,000.

Ofreg was also required to pay NIE the sum of £222,435.64 in settlement of the adverse Costs Award made against the DGES by the Northern Ireland Court of Appeal in respect of the Price Control.

Competition Act

The Competition Act 1998 (CA 98), which came into force on 1 March 2000, gave the DGES and DGG concurrent powers with the Director General, Office of Fair Trading (DG OFT) to investigate anti-competitive behaviour in the electricity and gas markets in Northern Ireland.

CA 98 obliged Regulators to produce guidelines on how the Act would be applied in their respective markets. Ofreg produced its guidelines **"Application to the Northern Ireland Energy Sectors"** in July 2001 after an extensive consultation exercise and the guidelines are available on the Ofreg website.



During the current year the DGES investigated two cases of anti-competitive behaviour which arose through third party complaints. The cases were fully investigated but the Director General found no grounds for suspecting anti-competitive activity.

Throughout the year Ofreg continued to play an active role in the development of UK competition policy through attendance at the Concurrency Working Party (CWP). The CWP consists of all those authorities with concurrent jurisdiction for CA 98 and is the forum for addressing issues raised by cases and practical procedures to enforce the law.

Energy Efficiency

In the current year Ofreg's main focus on energy efficiency has been through the energy efficiency programme which has been supported through the energy efficiency levy since its approval by the DG in 1997.

Since its inception in 1997 until 31 March 2001 the energy efficiency levy has supported 164,000 electricity consumers to projected lifetime energy savings of £26.4m, saving 119,887 tonnes of carbon that otherwise would have been released into the atmosphere. All this at a cost of £3.7m.

So successful has been this programme that the Director General, following encouragement from the Assembly, produced a consultation paper in November 2001 which proposes raising the levy to £5 per customer to help eradicate fuel poverty through the wider implementation of energy efficiency schemes.

Renewable Energy

The market for the sale of renewable energy in Northern Ireland is technically fully open- a renewable generator or supplier has the right to sell to any customer. To allow this technical position to be translated into actual trading opportunities, Ofreg convened during the year a representative body, known as the Trading Renewables Implementation Group (TRIG) to discuss the issues surrounding both small-scale renewables and larger renewable schemes.

Following on from discussions with TRIG, the DGES issued a consultation paper in August 2001 **"Making it Happen-Faster"** - Accelerating Trading of Renewable Electricity which considers the practical steps which can be taken

within the existing regulatory framework to promote and encourage renewables through the operation of an efficient market structure for renewable energy.



Metering

Electricity Metering

During the year, the meter examiners appointed by the DGES monitored the certification of 46,314 meters at the Culcavy Metering Station by the authorised NIE examiner. This level of activity, if maintained, should enable the company to meet the requirement, under the Electricity Order, to certify all its meters by February 2009. It is a demanding task and NIE has had to outsource some of its metering work to complement the efforts of its own staff.

The appointed examiners were satisfied that the company continued to demonstrate the traceability of electrical standard, sound overhaul, test and certification procedures in accordance with the requirements of the Regulations. They also noted that NIE moved from ISO.9002:1924 to ISO.900:2000, thus demonstrating continuing commitment to quality assurance.

The programme for installing 'Key Pad' meters proceeded apace with over 36,000 of these 'pay as you go' meters installed during the year. Most of these replaced existing "Powercard" meters but a number were installed at the request of customers. Market Research undertaken by NIE has indicated that the meters are proving popular.



Gas Metering

Regulations authorising the stamping of gas meters and setting Approved Meter Standards were drafted during the year and submitted to the European Commission for comment. In the light of comments made by the German Government, and in view of an impending Measuring Instruments Directive, the making of these Regulations has been delayed. It is likely that the Draft Regulations will have to be amended to take account of the Directive and the German observation.

Climate Change Levy

The Finance Act 2000 introduced the Climate Change Levy (CCL) which was paid from 1 April 2001 by non-domestic electricity customers at the rate of 0.43p per kilowatt-hour. Electricity from qualifying renewable sources is exempt. The provisions of the Act made the DGEs responsible for accrediting renewable generators, administering and monitoring the exemptions claimed and issuing Levy Exemption Certificates (LECs). Since April 2001 Ofreg has accredited twenty-six generators, issued 72 LECs with a value of approximately £146,000.

Modernising Utility Regulation

The 1998 Green Paper 'A Fair Deal for Consumers' included a proposal that the NICCE should be merged with the GCCNI and a single gas and electricity energy committee established within the Council.

In March 2001 DETI issued an Options Paper exploring alternative modes of consumer representation. Following consideration of responses, DETI's Minister decided that a single Energy Committee within an expanded GCCNI represented the best option for Northern Ireland consumers.

Equality Commitment

Ofreg's draft *Equality Scheme* was submitted to the Equality Commission on 25 June 2001 and was approved on 5 July 2001. The DGEs and DGG's statement in the Scheme outlined Ofreg's commitment to the fulfillment of the obligations in Section 75 of the Northern Ireland Act 1998 concerning the promotion of equality of opportunity between the groups identified as relevant for Northern Ireland purposes and promoting good relations between

persons of different religious belief, political opinion or racial group. In pointing to the importance of the Scheme's proposals the DGEs/DGG stressed their marking the beginning of a longer term process to ensure the issue of equality becomes an integral part of Ofreg's thinking.

Utilities Act 2000

In GB, the Utilities Act 2000 abolished the Offices of the Director General of Electricity Supply and Gas Supply. It created a new Gas and Electricity Markets Authority (GEMA) to govern the Office of the Gas and Electricity Markets (OFGEM). All of the existing functions were transferred to the new Authority with the exception of those transferring to a new Gas and Electricity Consumer Council to be known under the trading name *energywatch*.

The Utilities Act 2000 put consumers at the heart of Regulation by placing a principal objective on GEMA and the Secretary of State for Trade and Industry to exercise their functions in a manner best calculated to protect consumer interests.

DETI has indicated that it plans to consult on new legislation for Northern Ireland during 2002.





Office for the Regulation of Electricity and Gas

SUMMARY OF OUTTURN and the ACCOUNT of the sum expended, in the year ended 31 March 2001, compared with the sum granted, for expenditure by the Office for the Regulation of Electricity and Gas.

SUMMARY OF OUTTURN

Section	Estimated			Actual		
	Gross Expenditure £'000	Appropriations in Aid £'000	Net Expenditure £'000	Gross Expenditure £'000	Appropriations in Aid £'000	Net Expenditure £'000
£'000 DEPARTMENTAL EXPENDITURE IN DEPARTMENTAL EXPENDITURE LIMITS:						
I	<u>2,632</u>	<u>2,319</u>	<u>313</u>	<u>2,145</u>	<u>2,317</u>	<u>(172)*</u>

* This figure is £172,000 less than the net total of expenditure on the Appropriation Account, being the difference between the Appropriations in Aid realised (£2,317,000) and those applied (£2,145,000).

ACCOUNT

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
DEPARTMENTAL EXPENDITURE IN DEPARTMENTAL EXPENDITURE LIMITS:	£'000	£'000	£'000	£'000
ADMINISTRATION				
IA Direct Expenditure: Running Costs	1192	1028	164	-
IB Direct Expenditure: Other Current	1417	1094	323	-
IC Direct Expenditure: Capital	23	23	-	-
GROSS TOTAL	£'000			
Original	1726			
Supplementary	906			
Deduct				
IZ Appropriations in Aid				
Original	1725			
Supplementary	1594			
	2319	2145		
NET TOTAL				
Original	1			
Supplementary	312			
	313	-		

Actual surplus to be surrendered

£313,000.00

OFFICE for the Regulation of Electricity and Gas. Vote A 2000-01, OFREG
EXPLANATORY NOTES ON EXPENDITURE AND RECEIPTS

SECTION I: Administration [£2,145]

Current	Capital
£'000	£'000

Running Costs

Expenditure on the administration of OFREG including the salary of the Director General of Electricity Supply for Northern Ireland, the Chairman of the Northern Ireland Consumer Committee for Electricity and the Director General of Gas for Northern Ireland all of which are statutory appointments.

1028

Publicity and Consultancies

Advertising and promoting the role and duties of the Director General of Electricity Supply for Northern Ireland, the Northern Ireland Consumer Committee for Electricity and the Director General of Gas for Northern Ireland. Consultancy fees related to the various activities of OFREG in carrying out the duties detailed in the Electricity Order and the Gas Order

872

Legal Costs

A one off payment to Northern Ireland Electricity plc in settlement of adverse costs awarded by the Northern Ireland Court of Appeal

222

Capital Expenditure

Purchase of new machinery and equipment including computer equipment

23

2122

23

2. Receipts Payable to the Consolidated Fund

Estimated	Realised
£'000	£'000

(i) Receipts of classes authorised to be used as Appropriations in Aid

2319

2317

(ii) Receipts of other classes

-

34

Gross Total

Appropriated in Aid

2351

Net Total

2145

Actual sum payable separately to the Consolidated Fund

206

£205,656.97

Details of Receipts

Current	Capital
£'000	£'000

(i) Receipts of classes authorised to be used as Appropriations in Aid.

Electricity and Gas licence fees

2317

-

TOTAL

2317

-

(ii) Receipts of other classes

Document sales, licence application fees, meter inspection fees and recoupment of gas costs from DETI

34

-

TOTAL

34

-





appendix



Report of the Northern Ireland Consumer Committee for Electricity

Committee

Ms Sheila Fleming left the Northern Ireland Consumer Committee for Electricity (the Committee) during the course of the year.

Committee Meetings

Meetings of the full Committee were held in Belfast in February, April, June, September and November (in Castlereagh House). The Finance sub-committee met in May and October, and the Customer Care sub-committee in March, August and December.



Prices

In addition to the usual concerns affecting prices, the impact of the opening of the energy market and the possible consequences for domestic customers in an all-island market prompted the Committee in association with the GCCNI to commission a report on this subject. The consultant's report was discussed at the November meeting and it must be said that the prognosis for domestic prices in an all-island context was gloomy. Subsequently the Chairman wrote to DETI expressing the Committee's concerns about consumer risks in this future scenario.

Indeed the Committee expressed anxiety about the accumulation of factors likely to adversely affect domestic prices; for example, the costs associated with the gas pipeline to the North West; the increase in the energy efficiency levy and the measures to encourage renewables. In the long term benefits might accrue from trading across the Moyle interconnector and from the new combined cycle gas turbine plant at Ballylumford. The "stranded costs" issue was still unresolved and posed another threat to domestic prices.

A lot of time was devoted to argument and counter-argument on the DGES's proposals for the Price Control period of 2002-2007. The most contentious issues were likely to be those associated with NIE's asset base and capital expenditure programme. Additional meetings were held with NIE representatives in October and December to allow them to discuss Price Control issues.

Reliability of Supply and Customer Communications

A severe snowstorm, which started on 26 February and affected 100,000 customers catapulted into attention again the state of NIE's Transmission and Distribution system and the Company's ability to communicate with customers under storm conditions. On this occasion damage was caused by the accretion of ice on power lines and deep snowdrifts hampered attempts to repair the damage. NIE's efforts to carry out repairs would appear to compare favourably with utilities in the North of England and Scotland, which were also affected by the storm. However, once again there were significant criticisms of NIE's communication system, despite the fact that the system had been improved. Further improvements will be made, no doubt, in light of experience.

Customer Services

Although complaints to Ofreg and the Committee almost dwindled into insignificance, the Committee continued to work with NIE and Ofreg to resolve procedural difficulties and it was pleasing to note that the issue of the legal position of customer's rights to determination when under suspicion of meter

interference had been agreed. New procedures for NIE's debt handling were welcomed. The Committee was aware of complaints from customers unable to contact NIE's Billing Enquiries help line and discussed with NIE how this situation could be improved. The position is being monitored and improvements anticipated.

Energy Efficiency and Fuel Poverty

In February the DGES/DGG issued a consultation paper outlining the electricity and gas social action plans. Members of the Committee attended a conference arranged by the National Energy Action (NEA) to discuss the paper. While the Committee welcomes the moves to abolish fuel poverty, it also notes that in some cases the demands of energy efficiency and fuel poverty can be conflicting.

Billing and Metering

Following a successful pilot scheme for "key pad" meters, NIE has embarked on a full-scale programme of replacing "Powercard" meters and providing keypad meters to those customers who are in debt or who request them. A strange by-product of the February snowstorm was that it disabled the centre at Dunfermline which provides accountancy and Information Technology (IT) services for the key pad system, with the result that key pad meter customers could not purchase electricity for a few days. Such problems must be sorted out as the system is developed.

Government Review of Utilities

The Chairman appeared before the Enterprise, Trade & Investment Committee on 21st March to give evidence on the future of the NICCE. The subject was further discussed at meetings with the Minister, DETI. However, the option preferred by the Government is to form a sub-Committee of the GCCNI which will take over the duty of this Committee. The timing of such a change will depend on the progress of legislation through the Assembly.





appendix

3

Statement from the General Consumer Council for Northern Ireland (GCCNI)

It was a year of important developments with a major expansion in the number of gas customers, the decision to build two new gas pipelines which will offer the potential for natural gas to the majority of the population, and the decision to combine responsibility for all energy consumers within the Council.

Gas Prices

Prices are always a priority for consumers. We welcomed the three year price pledge from Phoenix to keep any rises to below the rate of inflation. Their price increase which took effect in September 2001 meant that customers paid only between 13p and 15p extra a week.



Payment Methods

There is some evidence that a significant number of customers like prepayment meters because it gives them more control over their consumption and also the ability to budget. We are pleased and relieved that Phoenix are now offering Quantum meters to all customers as a payment method.

In GB prepayment customers often have to pay a higher tariff than other customers. In NI prepayment customers do not at present pay any more for their gas. We would be most concerned if there was a proposal to change; among other things we consider it could increase fuel poverty.

Standards of Performance

The gas licence requires Phoenix to set up and monitor standards of performance. This relates to the delivery of various services to customers such as attending to gas escapes and responding to requests for connection. The Council and the company agreed to an introductory package of standards in 1998. Given the development of the company and the major expansion in the number of customers it was clearly time for review. There was extensive discussion which also included Ofreg to ensure the standards were as relevant to customers' needs as possible. Final agreement was expected to be reached shortly after the time of writing. We will be urging Phoenix to publicise the standards more widely to their customers.

Gas Installers

Gas installation companies play a key role in the customer service chain so it is worrying that complaints relating to installation have increased. Such companies should have an effective means of dealing with these complaints. We met SNIPEF (Scottish and NI Plumbing Employers Federation) who are setting up an independent complaints scheme for an effective means of redress for consumers. However this scheme applies only to the small proportion of all NI gas installers who are members.

We believe that the absence of an effective complaints procedure could damage the gas industry. We welcome the efforts made by Phoenix but it is up to installers to self-regulate to ensure high standards are met and any sub-standard work quickly rectified. We will continue to campaign for improvements. In particular we will join forces with SNIPEF in their forthcoming promotional campaign aimed at encouraging installers to join and consumers to use those installers who are members.

Gas Safety

Safety is of fundamental importance. Installers are required by law to belong to Corgi, the national organisation with

responsibility to ensure gas safety. The Council believes Corgi needs to dedicate more resources in NI given the sharp expansion of the natural gas industry.

Although consumers seem to recognise that gas work should only be carried out by installers who are Corgi registered, they are not benefiting from other consumer protection schemes that Corgi offers. For instance the Gas Work Guarantee Scheme provides for repairs to gas installation defects where the registered installer has ceased trading. We have asked Corgi to be much more active in promoting these schemes so that Northern Ireland customers can benefit from them.

Customer Opinion

In 2000 we undertook an extensive survey to find out the views, perceptions and concerns of gas users and non-users and to inform our work. We have decided to revisit the



subject to compare and contrast opinions in the light of the rapid growth of the industry. Both sets of survey results will be developed into a policy report containing recommendations for change where necessary. This work, the first of its kind in NI, will provide a useful benchmark of the consumer perspective for future reference.

All Island Developments

The go ahead was given for two new natural gas pipelines to be built from Gormanstown in County Meath to Antrim and from Belfast to Londonderry. This has the potential to make natural gas available to three-quarters of the population of NI, which is potentially good news to many where the choice of fuels had been limited. However the Government must be careful that the cost of the investment does not drive up the cost of gas and indirectly electricity to unacceptable levels.



Recognising the convergence of the gas and electricity markets we joined with the Northern Ireland Consumer Committee for Electricity to commission some research on the development of an all-island energy market. Our two organisations also worked together in preparing a response to the proposal to increase the energy efficiency levy to £5.

Fuel Poverty

The Council is fully committed to reducing fuel poverty. As part of that commitment we plan to publish the fourth in our *Price of Being Poor* series on fuel poverty in early spring. The report aims to capture the main issues and put forward some suggestions for further action.

We continue to work closely with NEA Northern Ireland, the fuel poverty charity, including participating in their annual conference. The Council's Chairman, Joan Whiteside, is a member of NEA's Policy Advisory Group and the Council is represented on the Fuel Poverty Partnership Forum facilitated by the Energy Saving Trust.

Energy Efficiency

We have continued to develop relationships with groups and organisations involved in energy efficiency work in NI. In particular, we value our links with the NI Housing Executive through membership of their Home Energy Conservation Act (HECA) Advisory Panel.

Consultation Documents

During the year, the Council made responses to the following energy related consultation documents.

- Energy Inquiry. *NI Assembly Enterprise, Trade and Investment Committee*
- Gas Social Action Plan. *Ofreg*
- Electricity Market Opening. *Ofreg*
- Energy Efficiency Levy. *Ofreg*

Representing Consumers

We represented the interests of energy consumers on the following organisations:

- Home Energy Conservation Authority, Advisory Panel
- Foyle Regional Energy Agency, Management Committee
- Fuel Poverty Partnership Forum.

Meetings

The Council had two high level tri-lateral meetings involving Phoenix and Ofreg during the year.

Staff also met Phoenix frequently throughout the year. We had regular meetings to review complaints; these meetings are designed to resolve difficult complaints and to discuss wider associated issues. Throughout the year, staff of the Council and Ofreg co-operated closely on gas related matters. On two occasions we met CORGI, the gas safety watchdog, to discuss gas safety matters.

The Council's Energy Group met four times during 2001 in addition to 10 meetings of the full Council at which gas and other energy matters were frequently discussed.

Membership of the Council's Energy Group to 30 December was as follows:

Bill Osborne (Convenor)

Brendan Bonner

Anne Collins

Daniel Corr

Mark Gavin

Dawn Livingstone

Joan Whiteside

Co-opted members

Nigel Brady

Gordon Millington

Gary Mills

Council staff working on gas matters include Maeve Bell (Director), Joanne Stevenson (Consumer Affairs Officer) and Geraldine McKenna (Assistant Consumer Affairs Officer).

Following consultation with interested parties and the Assembly's Enterprise Trade and Investment Committee, the Minister, Sir Reg Empey, decided to combine responsibility for electricity and gas consumer representation in a new committee located within the Council. This will allow the Council to provide a single, strong, independent voice on all energy consumer issues. The necessary legislation is anticipated by spring 2003. In the meantime we will work as closely as we can with Ofreg and the NICCE to have an orderly transition and ensure that the consumer does not suffer any detriment because of the change.

Representations

The overall breakdown of gas representations for 2001, and a comparison with 2000, is shown on the following page.

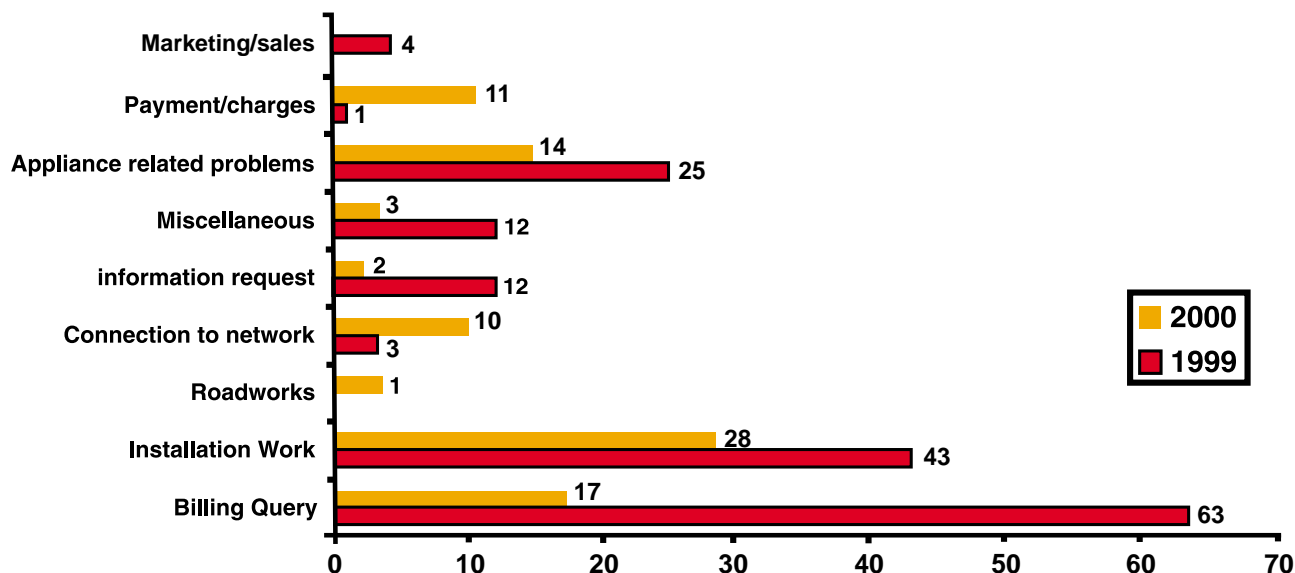
The Council dealt with 163 natural gas representations during the year of which 93 related to Phoenix Natural Gas. A further 3 related to Liquefied Petroleum Gas (LPG). Overall this represented a 68% increase on the previous year.

Of the natural gas representations, 12 were enquiries, 90 were first stage complaints and a further 61 were second stage complaints where the person had already made their complaint but was dissatisfied with the response.



Representations

GCCNI Gas Representations - 2000 and 2001



Complaints about direct debits have remained high. Many customers have experienced difficulty trying to set up a direct debit account, while others have found that payments were not deducted and as a result they were in arrears. We have urged Phoenix to provide a six monthly statement for direct debit customers in their first year to assist in early detection of any problems in their account and to ensure that the monthly amounts reflect the gas they are using.

We remain concerned about both the high number of estimated rather than actual meter readings and their accuracy. Phoenix has offered assurances that a more accurate mechanism for calculation is being developed. We believe this is most important.

There has been some confusion amongst customers regarding Phoenix's sales incentive offers, such as half price gas. Some had been advised incorrectly about their entitlement to certain offers while others complained that Phoenix had not processed their offers properly. We have urged Phoenix to give clearer guidance, both written and oral, to avoid undue disappointment and to improve their processing of these offers.

We have continued to receive complaints relating to installers. Customers remain frustrated with installers' after-sales service and many are finding it difficult to find installers willing to service their gas appliances. This has negative implications for the whole gas industry, particularly in relation to safety. We highlighted our concerns to all the relevant bodies asking for action to be taken.





appendix



Publications Available from Ofreg

Publications List.

The following publications can be inspected at:

The Office for the Regulation of Electricity and Gas (Ofreg)
 Brookmount Buildings
 42 Fountain Street
 BELFAST
 BT1 5EE

at a cost of £1.00.

Alternatively orders will be issued upon receipt of a cheque made payable to Ofreg (please add appropriate postage & packaging).



PUBLICATION**£ PRICE****ELECTRICITY LICENCES**

Ballylumford Power Limited - Electricity Generation Licence	6.20	p&p	0.73
Belfast West Power Limited - Electricity Generation Licence	6.20	p&p	0.73
Coolkeeragh Power Limited - Electricity Generation Licence	6.20	p&p	0.73
Kilroot Power Limited - Electricity Generation Licence	6.20	p&p	0.73
Northern Ireland Electricity plc - Transmission & Public Electricity Supply Licence	21.50	p&p	1.25
Northern Electric and Gas Ltd - Private Electricity Supply Licence	4.10	p&p	0.73
Eastern Electricity - Private Electricity Supply Licence	4.10	p&p	0.73
Manweb plc - Private Electricity Supply Licence	4.10	p&p	0.73
PowerGen plc - Private Electricity Supply Licence	4.10	p&p	0.73
Premier Power Ltd - Private Electricity Supply Licence	4.10	p&p	0.73
Scottish & Southern Energy Retail plc - Private Electricity Supply Licence	4.10	p&p	0.73
E Power Ltd - Private Electricity Supply Licence	4.10	p&p	0.73
National Power Ltd - Private Electricity Supply Licence	4.10	p&p	0.73
Scottish Power Energy Retail Ltd - Private Electricity Supply Licence	4.10	p&p	0.73
Eirtricity Holdings Ltd - Private Electricity Supply Licence	4.10	p&p	0.73

GAS LICENCES

Phoenix Natural Gas Ltd - Combined Licences for the Conveyance and Supply of Gas	20.00	p&p	2.55
Premier Transco Ltd - Licence to Convey Gas	10.00	p&p	1.05
British Gas Trading Ltd - Licence to Supply Gas	10.00	p&p	0.55
Premier Power Ltd - Licence to Supply Gas to Ballylumford Power Station	10.00	p&p	0.55
NIE plc - Licence to Supply Gas to Ballylumford Power Station	10.00	p&p	0.55
AMOCO Ltd - Licence to Supply Gas	10.00	p&p	0.55
Elf Gas and Power Ltd - Licence to Supply Gas	10.00	p&p	0.55
Viridian Energy Supply Ltd - Licence to Supply Gas to Ballylumford Power Station	10.00	p&p	0.55

OTHER OFREG PUBLICATIONS

OFFER NI Annual Report 1992	8.50	p&p	0.45
OFFER NI Annual Report 1993	8.80	p&p	0.64



PUBLICATION

£ PRICE

OFFER NI Annual Report 1994	9.00	p&p	0.55
OFFER NI Annual Report 1995	10.00	p&p	0.70
OFREG Combined Annual Report 1996 (Electricity and Gas)	17.50	p&p	1.25
OFREG Combined Annual Report 1997 (Electricity and Gas)	17.50	p&p	1.45
OFREG Combined Annual Report 1998 (Electricity and Gas)	17.50	p&p	1.45
OFREG Combined Annual Report 1999 (Electricity and Gas)	17.50	p&p	1.45
OFREG Combined Annual Report 2000 (Electricity and Gas)	17.50	p&p	1.45
Report on Customer Services 1994/95 - OFFER NI	Free		
Report on Customer Service Standards 1995/96 -OFREG	4.50	p&p	0.45
Report on Customer Service Standards 1996/97 -OFREG	6.50	p&p	0.49
Report on Customer Service Standards 1997/98 -OFREG	7.55	p&p	0.38
Report on Customer Service Standards 1998/99 -OFREG	6.00	p&p	0.38
Report on Customer Service Standards 1999/00 -OFREG	6.00	p&p	0.38
Report on Customer Service Standards 2000/01 -OFREG	6.00	p&p	0.38
Electricity: How much can Landlords charge?	Free		
Electricity Services Customer Survey - MRNI Ltd	Free		
Investigation into Northern Ireland - Scottish Interconnector: A report by the DGES - June 1995	Free		
Combined Heat & Power and the Northern Ireland Energy Market. A Consultation Paper: June 1996.	Free		
Consumer Choice Competition & Prices. 'The Next Steps' - A Consultation Paper: July 1996.	Free		
Price Control Reviews for Northern Ireland Electricity plc - DGESs proposals - July 1996.	Free		
Combined Heat & Power and the NI Energy Market - A Response	Free		
Natural Gas - A Consultation Paper	Free		
Tackling the High Cost of Generation - A Report by the Director General of Electricity Supply - October 1997	Free		
Implementing the European Directive on Electricity Trading in Northern Ireland - November 1997	Free		
* Monopolies & Mergers Commission Report: <i>Northern Ireland Electricity plc - A report on a reference under Article 15 of the Electricity (Northern Ireland) Order 1992 - Available from HMSO bookshops</i>	£26		
A Report prepared for Ofreg on Options for Generation in N.I. by London Economics - Executive Summary	Free		



PUBLICATION

£ PRICE

DGES Reports on Northern Ireland Electricity's Distribution & Transmission System Performance 1992/97 - May 1998	Free
OFREG: Help and Advice for Electricity Customers	Free
The Ballylumford Proposal: A Bridge to Lower Generation Costs? - August 1998	Free
Forward Work Plan and Topics For Consultation - October 1998	Free
Options for A Greener Energy Policy - Consultation Paper - December 1998	Free
Reducing the Cost of Generating Electricity in Northern Ireland The Generators' Proposals - the basis for the future? - December 1998	Free
Climate Change Levy - Submission from Ofreg - May 1999	Free
Energy Efficiency and Fuel Poverty - Consultation Paper - June 1999	Free
CO2 Reductions and the Electricity Supply Industry - A Consultation Paper issued by OFREG - August 1999	Free
The Northern Ireland Electricity Supply Market and The Development of Competition - Progress Report for 1999/2000 and Prospects for 2000/2001 - November 1999	Free
Forward Work Plan and Topics for Consultation - 2000/01 - November 1999	Free
Cross Border Trading in Electricity - A Consultation paper issued by the DGES - November 1999	Free
Energy Efficiency, Fuel Poverty and the Supply Price Control - December 1999	Free
A Report on the Boxing Day Storms 1998 - April 2000	Free
T& D Price Control Review Paper - April 2000	Free
The Power Procurement Business - Its Functions and Future - June 2000	Free
Stimulating Renewable Generation in Northern Ireland - Sept 2000	Free
The Role of Regulatory Accounts in Regulated Industries - Oct 2000	Free
Asset Accumulation and its effect on the T & D Price Control - Nov 2000	Free
Various publicity leaflets/pamphlets are also available.	Free



RELATED DOCUMENTS

Under the Electricity Order the DGES, and under the Gas Order the DGG, each has the power to grant and modify licences, to make provisional and final orders and to issue directions. In addition, individual licences issued under the respective Order contain powers for the DGES and the DGG to issue directions and consents and to make determinations.

These related documents can be inspected at Ofreg for £1.00 or purchased by sending a cheque for the amount stated.

NORTHERN IRELAND CONSUMER COMMITTEE FOR ELECTRICITY (NICCE)

Annual Report 1992/93	Free
Annual Report 1993/94	Free
Annual Report 1994/95	Free
Annual Report 1995/96	Free
Annual Report 1996/97	Free
Annual Report 1997/98	Free
Annual Report 1998/99	Free
Annual Report 1999/00	Free

Ofreg Website:

<http://ofreg.nics.gov.uk> or alternatively www.nics.gov.uk/ofreg

Some of the publications and most of the licences listed above can also be downloaded from our website



The image is a full-page background featuring a gas stove burner with a bright blue flame. In the foreground, a glowing incandescent light bulb is visible, casting a warm, yellowish light. The entire scene is overlaid with a series of horizontal white lines, creating a notebook-like appearance for taking notes. The word "NOTES" is printed in a bold, black, sans-serif font at the top center of the page.