

NORTHERN IRELAND ELECTRICITY plc

**NIE's Response to NIAUR's
Consultation on
Energy Retail Competition Work
Programme –
General Overview and Rationale**

July 2009

1 July 2009



Introduction

This paper sets out NIE's response to the consultation by the Northern Ireland Authority for Utility Regulation (NIAUR) on its Energy Retail Competition Work Programme: General Overview and Rationale, published in April 2009. As the licensed provider of support services to all retail market participants in Northern Ireland (NI), NIE considers that it has an important role in supporting the further development of electricity retail market competition and this response highlights a number of issues that arise.

Our comments are set out under the following headings:

1. Scope of This Response.
2. General Comments.
3. Responses to Consultation Questions.

1. Scope of This Response

The items that are covered in this response are those issues that are raised in the Consultation Paper of relevance to NIE.

In respect of the electricity sector in NI, NIE fulfils the role of meter asset owner and operator as well as being the licensed provider of metering data to all electricity retail market participants. It is important to recognise that this role is significantly different to that of network operators in Great Britain (GB), where under the "supplier hub" approach electricity retailers have responsibilities for aspects of service provision that in NI fall to NIE. When comparing particular issues between GB and NI, it is important to bear these differences in mind.

At present, NIE is undertaking a significant procurement for IT systems to replace 40 year old legacy systems. The new systems will support unrestricted domestic retail market competition – this is termed the enduring solution and is noted in the consultation paper at paragraph 38 (a). Current legacy system arrangements impose operational restrictions both on the number of customers that may switch supplier ("churn rate") and the total number of customers that may switch (capacity "ceiling"). These constraints are noted in the paper in paragraph 26 (d) and the implementation of the enduring solution will remove them. Present plans are to appoint a suitable systems integrator by the end of 2009, with the new systems going live towards the end of 2011.

2. General Comments

NIE considers that a key aspect of its role is to support the electricity retail market. We do this in a number of ways, including maintaining the backbone systems on which the market relies, providing various services to suppliers

including meter reading and developing new systems to support enduring arrangements. Some of these services are licence requirements, others are set out in other documents - for example the Market Registration Code (MRC).

In paragraph 80, mention is made of the licence obligation on suppliers to provide meter readings. In NI, as noted earlier, NIE provides a range of services to suppliers, including meter reading, the latter being a requirement set out in the MRC. We note NIAUR has no plans to reduce the obligations in respect of meter reading.

Paragraph 83 states that prepayment meters are not more expensive for suppliers, as compared to GB. We are not sure of the basis for this statement, as suppliers will face different costs in relation to supporting prepayment customers as opposed to credit metered customers – for example, there are separate contractual arrangements to be resolved with both the meter provider, PRI (whilst NIE hold a “central” contract with PRI that covers new entrant suppliers, they are likely to require individual contracts with PRI to cover issues such as training and set up services) and relevant vending agents, and different processes will apply to the different types of meter. It would be a matter for suppliers to determine whether or not they wished to reflect these cost differences in their tariffs.

It is also important to note that, unlike many other jurisdictions that install prepayment meters primarily to deal with customer debt problems, in NI prepayment meters are chosen by many customers in preference to credit meters for other reasons, and the market penetration is correspondingly higher, at around 30%.

Paragraph 89 discusses the implementation of changes in switching systems. Our response to the specific comments is as follows:

- (a) Clear roles and responsibilities. We agree that this is important, and note that a variety of documentation, including the MRC, already exists in this regard. We also accept that we will have a central and important role in market arrangements in the enduring solution.
- (b) Proper testing. This is an integral part of our existing plans for the implementation of the enduring solution. We will refine these plans once we have received responses from bidders to our recent Request for Proposals (RfP), but present thinking is that a sequence of System Testing, User Acceptance Testing, Business Acceptance Testing, Non Functional Testing and Market Testing will take some 11 months from the completion of the build phase of the project. In addition, extensive trials and testing of data migration will be taking place in parallel.
- (c) Manual systems. Whilst we agree in general that these should be discouraged, there are cost tradeoffs involved in automating processes that have relatively low transaction volumes associated with them, especially if such processes are by their nature complex. At present we

anticipate automating a number of existing manual processes, but there may be some where the cost / benefit analysis indicates that it may be appropriate to retain a manual element.

Paragraph 95 discusses the addendum to the original MoU between the energy regulators in Ireland to reflect a common approach to retail market regulation. We think it would be helpful if any future amendments to the MoU could recognise the roles that networks play in supporting retail market activities; the extract quoted in paragraph 95 only mentions suppliers. Harmonisation of matters including market messaging is already high on the regulatory agenda, and this is one of the areas where a common approach between network operators is important in the longer term.

The table on pages 25 & 26 of the consultation paper sets out a series of projects that are to be carried forward. The Enduring Solution project is listed with reference made to “Underway – 10/11” – for clarity current expectation is that the project will be delivered in late 2011. Other than that, we note that a number of other projects may in time impact the activities of the network operator, for example specific provisions that may arise from the Data Transparency project or supporting information to be provided to the Annual Retail Market report.

3. Responses to Consultation Questions

Question 1: Respondents are asked to comment on the impact of this paper with regard to equality of opportunity and good relations

We see no reason why the paper should have any adverse impact on equality of opportunity or good relations.

Question 2: General comments are invited on our overall approach to analysing the cost, benefits and options relating to supply competition

We concur with the overall approach. We repeat our comment regarding the common services provider role for NIE in NI, and that this needs to be taken into account in any comparative analysis.

Question 3(a): To what extent is segmentation of the retail sector inevitable and indeed healthy?

This is a matter primarily for suppliers. For NIE, the key question is to ensure that an appropriate degree of segmentation can be supported by core systems, and the existing design for the enduring solution is intended to cater for this. For example, equality of service will be delivered to those customers that switch suppliers as compared to those that remain with their existing supplier. Over time, the design of the enduring solution may need to be augmented, for example to take into account the need to support smart meters.

Question 3(b): What kinds of segmentation (or inequality of outcome) would respondents see as undesirable, and at what level would regulatory intervention be justified?

This is a matter primarily for suppliers. We suggest, however, that any proposals for segmentation need to be based on the "user pays" principle. It is possible, for example, that particular proposals for detailed data provision are of particular benefit to the proposer in relation to its business model, in which case the proposer should bear the costs of such data provision. If instead segmentation proposals are seen by the Utility Regulator as benefitting the whole market, then the relevant network operator costs should be borne within our cost base, and allowed for recovery.

Question 4(a): The paper suggests that the Utility Regulator should monitor with particular care levels of competition for rural customers, pre-payment customers and those not on the gas network. Also that the Utility Regulator should monitor closely whether current meter-reading obligations are sufficient.

The matters associated with monitoring are primarily for the Utility Regulator and suppliers and we will support whatever consequences arise for the network operator, providing that relevant costs are allowed for recovery. The meter reading obligations are referenced in paragraph 80 and we note that the particular issue seems more associated with gas as opposed to electricity meters. It should be noted, however, that if it was decided that the frequency of meter reads should be increased, this has cost implications that have to be considered against benefits such as more accurate short term settlement calculations.

Question 4(b): Comments on these priorities are invited. Do respondents wish to suggest other areas that require particular attention from us?

Our comments on the various priorities are set out above. We have already stressed the need to recognise the common services role of the network operator in NI.

Question 5: Comments are sought on our proposed approach to continued regulation of tariffs in the coming years?

The comments in the relevant paragraphs apply to suppliers. We anticipate that regulation of network tariffs will continue and will not be lifted until effective competition is in evidence.