
ANNUAL REPORT

2010-11



Annual Report 2010-11

Combined report of the Northern Ireland Authority for Utility Regulation (the Utility Regulator).

The Utility Regulator has decided to produce a combined energy and water and sewerage report in accordance with Article 5 (5) of the Water and Sewerage Services (Northern Ireland) Order 2006.

Laid before the Northern Ireland Assembly in accordance with Article 5 (1) of the Water and Sewerage Services (Northern Ireland) Order 2006 and Article 6 (5) (a) of the Energy (Northern Ireland) Order 2003 by the Department of Enterprise, Trade and Investment.

Our mission

Value and sustainability
in energy and water.

Our vision

We will make a difference
for consumers by listening,
innovating and leading.

Our values

Be a best practice regulator:
transparent, consistent,
proportional, accountable
and targeted.

Be a united team –
One team one mission.

Be collaborative and
co-operative.

Be professional.

Listen and explain.

Make a difference.

Act with integrity.

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1. Chairman's Foreword

Last year was one of both continuity and change. One of the worst economic downturns for some time continued to constrain efforts to grow and develop the Northern Ireland economy. In both the UK and the Republic of Ireland there were General Elections. The outcome of both led to the formation of coalition governments in London and Dublin. Elections to the Assembly took place on 5 May.



Continuity and change was at the heart of our work during the past year too. Our focus on protecting the interests of consumers, and contributing to the economy and society, remain constant. We continue to focus on our bread and butter work such as delivering price control determinations and scrutinising utility tariffs. We also stepped in, when required, to protect the consumer interest through, for example, carrying out investigations when necessary. Our focus on the future meant we also advanced developments that are in the best interest of utility consumers (e.g. encouraging supplier competition).

Yet change was also an important element of the past year. We were pleased that our work in removing barriers to new supplier entry reaped dividends, when Airtricity and firmus energy announced their entry to the domestic energy markets during 2010. Change is also about dealing with the unexpected. Consumers will never forget the water supply disruptions that affected many during the

December 2010-January 2011 period. We stepped in and conducted an extensive investigation and produced a report including a Recovery Action plan. The Recovery Action plan detailed the steps that must be taken to improve NI Water's (and Northern Ireland's) response to a major adverse incident and minimise the impact should such a crisis occur again in the future.

We continue to be forward-looking to prepare for, and anticipate, change. One key development was the publication of the Department of Enterprise, Trade and Investment's Strategic Energy Framework. We recognise that we have a valuable role in facilitating the achievement of sustainable energy targets. Our knowledge and experience is also being applied to examine how regulation can advance progressive and integrated infrastructure investment. As a regulator we are actively harnessing our multi-utility focus to enhance our regulatory approach and application.

Our organisation also changed last year. Iain Osborne stepped down as Chief Executive to be replaced by Shane Lynch. On behalf of the organisation I thank Iain for his tremendous achievements during his tenure and look forward to working with Shane in his new role. We also welcomed Bill Cargo and Richard Rodgers onto the board and will undoubtedly benefit from their experience and knowledge.

While we maintained a commitment to objective evidence-based economic regulation, we also understood the importance of being sensitive to the wider needs of society. Specifically, several of our staff are engaged in social projects that will promote long-term benefits for consumers.

In everything we do, I am grateful for the commitment of the people who work for the Utility Regulator. Our organisational achievement is made up of the countless individual achievements of staff.

Peter Matthews
Chairman, Utility Regulator



2. Chief Executive's Report

When I became Chief Executive of the Utility Regulator in January 2011, after 27 years in the electricity industry, I very quickly realised that there was so much in common across the three utilities which we regulate. The electricity, gas and water industries are all infrastructure intensive and require significant investment to ensure a quality service. The same economic and engineering principles and concepts apply to all three. I am convinced that combining our collective experiences and skills (as economists, engineers, accountants, etc) can and will deliver significant value for utility consumers in Northern Ireland.

Each of our three utility industries is at a different stage of development. 2010-11 was a year characterised by continual change and one or two notable events.

Perhaps most notable was the unprecedented freeze/thaw event in December/January. My first two months in my new role were dominated by the investigation into this incident. It turned out that this was a "one in a hundred year" event. The extremely low temperatures followed by a rapid thaw caused many water pipes to burst in domestic and business premises over the holiday period. Contrary to public perception, the

Northern Ireland Water (NI Water) network was in good condition, performed well and was not affected unduly by under-investment. Consumers were badly let down however by shortfalls in communication. Following our investigation, we developed a Recovery Action plan which NI Water is now implementing to minimise the impact of a similar extreme weather event.

All of us learned so much from the freeze/thaw event. Back in 1998-99 Northern Ireland Electricity (NIE) did not perform well in its reaction to a Boxing Day storm. This resulted in the

loss of supply to thousands of electricity consumers for several days. The good news is that NIE learned from this experience and reacted much better to subsequent similar events. I have no doubt that NI Water can do likewise.

NI Water is at an early stage of development as a company. Our first price control set challenging targets to help close the efficiency gap with its peers. This is the real value of economic regulation of natural monopolies; transparency and accountability. The process reveals opportunities for improvement and we should not over-react when apparent shortfalls in performance come to the surface. Seeing the shortfalls means we can address them. During the year we published our cost and performance report, for the period 2007-10, which demonstrated that NI Water is on the right path and is making steady progress.

We use price controls to set the operating and capital

expenditures which are necessary for a monopoly to perform efficiently. NI Water requires public funding for at least 70% of its income and, at a time of economic recession, this level of funding may not always be available from public funds. During the year we agreed a novel approach with NI Water for adjusting expected deliverables if funding is insufficient. This has demonstrated the adaptability of economic regulation.

The electricity industry in Northern Ireland has been privatised for almost 20 years now. In this year we saw further significant change. The single wholesale electricity market attracted two new power plants on the island. These were built without long-term commitments from consumers. In other words, the owners of the plant are exposed to the investment risk. It is perhaps ironic that, in the same year, we cancelled some long-term, and controversial generation contracts that were put in place at privatisation in 1992.

The year also saw two major acquisitions in the electricity industry. ESB acquired the NIE network business, and the AES Corporation, who already owned Kilroot Power Limited, acquired its neighbour - Premier Power Limited. We worked with the Office of Fair Trading and others to ensure that consumers would

not be adversely affected by these transactions before issuing the necessary approvals.

Things also continued to evolve in the electricity retail sector. In June we saw the entry of Airtricity to compete with the incumbent supplier, NIE Energy Supply (NIEES), by offering discounts to its regulated tariff. This was a very welcome development and we are optimistic that we will see further new suppliers entering the market in the near future. Following detailed scrutiny of underlying costs, we were pleased that we managed to freeze the regulated tariff in October 2010 for another year. Unfortunately however rising wholesale energy costs means that increases in consumer bills are likely to be unavoidable.

For the gas industry we apply the same regulatory approach to retail as we do for electricity. In the context of this model, we witnessed the entry of firmus energy to the market in the Greater Belfast area to compete with the incumbent, Phoenix Supply Limited (PSL). During the year we also took the decision to accelerate market opening in the Ten Towns area (those district towns outside the Greater Belfast area currently supplied exclusively by firmus energy). The larger industrial and commercial gas market will now be open to competition

from October 2012. We also managed to freeze the regulated gas retail tariff for PSL for another year, leaving it amongst the lowest in the United Kingdom. Unfortunately however we had to significantly increase this tariff later due to unavoidable rising wholesale gas prices.

In 2010-11 the respective energy Ministers approved the development of common arrangements for the operations of the gas networks on this island. The project, known as Common Arrangements for Gas (CAG) is now being advanced for completion by October 2012. This simplification will deliver value for gas consumers in both jurisdictions and provide a more favourable framework for further investment.

In all three utilities we try to promote competition where this can be made effective. There are some areas however that are naturally monopolistic. This includes the operation, maintenance and development of networks. As a surrogate for competition, we set price controls in return for the delivery of certain outputs including reliability, growth and sustainability.

In the absence of competition we benchmark costs and performance with other utilities in the UK. During 2010-11 we have advanced our work in preparing for revised price controls for both

our electricity and gas networks from 2012. We also completed the next price control for the System Operator for Northern Ireland (SONI) who operate the electricity network.

In setting future price controls we are working closely with the Department of Enterprise, Trade and Investment (DETI) and other stakeholders in the context of the recent Strategic Energy Framework (SEF). In particular, we are evaluating the options for achieving sustainability targets, whilst at the same time ensuring that consumers continue to be protected.

We remain very focused on protecting energy consumers from high energy prices, wherever possible, given the high level of fuel poverty in Northern Ireland. During 2010-11, we advanced the implementation of the recent EU Directive (known as IME3) which has consumer protection at its heart. We worked on a number of initiatives to help vulnerable consumers including a review of the new NIE Critical Care scheme to ensure that they receive a priority service and the development of a code of practice and licence obligation for dealing with consumer debt. We also awarded £6 million for energy efficiency projects for vulnerable consumers.

The SEM and CAG initiatives on this island are tremendous examples of co-operation between EU member states. During the year the EU issued its Framework Guidelines to advance further regional integration. We increased the export capacity on the Moyle electrical interconnector from 80 to over 300 MWs and 2012 will see the arrival of a second interconnector between these two islands. The direction of travel is now towards regional integration of our energy markets. With that objective in mind we have continued to work closely with the energy regulators in Ireland, GB and France.

This has been another very busy year for us. We achieved or partially achieved 90% of the work set out in our Forward Work Plan. We also completed significant unplanned work, including the freeze/thaw investigation and the work associated with the two acquisitions in our electricity sector.

I would like to close by thanking our dedicated and talented people, my colleagues on the board and all utility stakeholders for their support in my first year as Chief Executive. We are very proud of our achievements in 2010-11, whilst recognising the

scale of challenge for coming years. I would particularly like to thank my predecessor, Iain Osborne, for building a fit-for-purpose organisation over the last 5 years. With your support I am looking forward to leveraging this capability to even greater achievements for the benefit of our consumers in Northern Ireland.

Shane Lynch
Chief Executive

3. Electricity



Highlights

- Our System Operator of Northern Ireland (SONI) price control identified £12.9 million of savings for consumers
- The cancellation of certain power generation contracts will reduce consumers' bills and save them in excess of an estimated £80 million over the next 5 years
- Further investment and transparency on market operations were key benefits to consumers from the operation of the Single Electricity Market (SEM)
- We oversaw and approved two major acquisitions in the market – the sale of NIE (T + D) and sale of Premier Power Limited.

This section covers the generation, transmission and distribution of electricity. Section 5 covers electricity retail. The electricity industry in Northern Ireland has been privatised for almost 20 years now. Yet we are still experiencing continual evolution and change. In generation, we cancelled long-standing power generation contracts, while at the same time we witnessed the construction of two new power plants in Cork. The Single Electricity Market (SEM) is well established and we are now focused on advancing EU regional integration, with the publication this year of the EU Framework Guidelines. The last year also marked the publication of the Strategic Energy Framework (SEF) by the Department of Enterprise, Trade and Investment (DETI). In setting the next price control for the NIE (T + D) business we are working closely with DETI, NIE and other stakeholders to evaluate the options for achieving sustainability targets, whilst at the same time continuing to protect consumers.

Promoting efficiency by regulated companies

The transmission and distribution of electricity is a natural monopoly. As such we depend on regulation, as a surrogate for competition, to protect consumers. We apply this regulation to the planning, development, operation and maintenance of the network. The System Operator for Northern Ireland (SONI) operates the transmission network. NIE (T + D) owns, plans, develops and maintains the transmission network. NIE (T + D) also owns, plans, develops, operates and maintains the distribution network.

We continued to deliver efficiency savings for consumers and promote investment through price controls of these regulated companies in 2010-11.

During 2010-11 we carried out a price control for SONI, to operate from April 2010-September 2015. The review was undertaken in the context of the DETI's Strategic Energy Framework - and its targets for renewable generation and other legislative developments. This will entail SONI managing an increasing number of connections and additional power, generated by wind, on the system.



We scrutinised a detailed submission made by SONI. This included an assessment of projected operating costs, capital expenditure, cost of capital and depreciation proposals and suggestions for incentives which could be applied to the company. SONI's submission asked for £84.6 million to run its business in the period to 2015.

Following our assessment, we decided to allow SONI £71.7 million to operate its business over the period to 2015. While

this is a 15% reduction on SONI's proposal, it will nevertheless enable the company to provide an effective service at a reasonable cost.

We also initiated work on the next NIE (T + D) price control (RP5). An RP5 Strategy Paper was published, identifying the key issues for consideration and a detailed information submission was requested from NIE. Throughout this price control work we are very keen to engage with consumers and other stakeholders and will

continue to hold a number of workshops to discuss the key issues. For price controls of this nature, expenditure to ensure a safe network is mandatory. Some discretion however exists in regard to the level of reliability or sustainability that can be delivered with investment. We expect to publish a price control consultation paper in Autumn 2011, with the final price control determination in place from 2012.

Delivering the benefits of the Single Electricity Market to consumers

The Single Electricity Market (SEM) is now in its third year of operation and continues to deliver benefits for consumers.

During 2010-11, the SEM continued to operate very effectively across the island. The Second Annual Report of the SEM Committee (SEMC), published in May 2010, noted the significant interest in the development of new generation on the island of Ireland.

This has resulted in increased competition amongst generators and investment in the island of Ireland as a whole. We witnessed the introduction of two new combined cycle gas turbine (CCGT) plants in Cork together with several new wind farms across the island. These plants will operate without any long-term guarantees from consumers. If the plants are not competitive, investors - rather than consumers - will bear the risk.

Given that there remains a high degree of dominance in the SEM, we continued to regulate market bidding in 2010-11 using our Market Monitoring Unit (MMU). During the year it undertook a number of investigations and the resulting changes to bidding behaviour led to significant consumer savings.

Understanding the extent to which consumer demand impacts on the operation of the SEM has also been a focus during the last year. The SEMC has been developing a Demand Side Vision (DSV) for the island of Ireland. The premise of DSV is that, by making choices about how they use energy (e.g. by being more energy efficient), consumers can contribute to the lowering of energy costs overall. The SEMC published a consultation document on the DSV, detailing policy implications, demand side measures, benefits and priorities and seeking responses from interested parties to the issues raised and questions asked. The SEMC intend to publish a decision paper setting out a DSV implementation plan, reflecting responses to the consultation and highlighting actions that we are progressing to maximise benefits for consumers in the future.

Separately, and in support of the DSV, Smart Meters are a key development within the SEM. Smart Meters are technology which can be used to help consumers monitor their energy usage. The Smart Meter trial in Northern Ireland which commenced last year continues. Work has been undertaken with DETI on a cost benefit analysis and an options appraisal for the future development of Smart Meters.

Other SEM projects were advanced during the year, including a review of market power and liquidity, and the treatment of renewable generation. The Single Electricity Market Committee (SEMC) plans to conclude this work during 2011-12.

Reducing the costs of producing electricity

Electricity generation is generally accepted as an area where competition can be promoted to deliver value for consumers. Indeed, the cost of power generation is one of the largest elements of consumer electricity bills. During the last year we consulted publicly on the potential cancellation of certain contracts (called Generating Unit Agreements – GUAs) between NIE Power Procurement Business (PPB) and the generators.

Following the consultation and further policy and economic analysis, we decided to cancel certain GUAs for AES Kilroot, with effect from 1 November 2010 (the earliest possible cancellation date). It is anticipated that this will reduce the cost of electricity for consumers in Northern Ireland via a lasting reduction in the Public Service Obligation (PSO). We estimate the savings to consumers to be in excess of £80 million over the next 5 years alone.



Helping business consumers choose their electricity supplier

Our inquiry into business electricity tariffs, launched in November 2009, led to the publication of a report in March 2010. During 2010 we moved forward on implementing the recommendations of the inquiry report.

A key development during the year was the publication of buyers' guides for various types of business electricity consumers. We held a business tariff workshop in June 2010 at which we published separate guides for large energy users and small and medium sized enterprises. These guides were intended to provide business electricity consumers with information that would be of assistance to them regarding their choice of electricity supplier.

As well as providing information on the components of an electricity bill, the guides outlined factors influencing electricity bills and the types of contracts available with suppliers. The guides also offered advice on the considerations that business electricity consumers should think about regarding their choice of supplier.

It is also noteworthy that following this decision, the AES Kilroot plant did not close and continues to sell its output in the SEM, increasing the level of wholesale competition on the island of Ireland.

Approving major acquisitions

During 2010-11 we saw the sale of two major assets within the electricity market. NIE (T + D) was acquired by ESB, the state owned electricity company in the Republic of Ireland, and Premier Power Limited, owners and operators of Ballylumford Power Station, was purchased by the AES Corporation.

As the single transmission and distribution company in Northern Ireland and with this sale increasing AES's share of the power generation market, it was vital that we used our independent expertise to oversee and make a final determination on these transactions. As part of our consultative approach, we worked closely with the Office of Fair Trading and other key stakeholders to ensure these transactions had no adverse impact for consumers.

Influencing European market development

While the SEM continues to develop, we are also contributing to - and seeking to influence - market developments at a wider European level.

The move towards regional integration in electricity markets is a significant development. Regional integration raises a number of issues for the SEM. A key challenge is that its market design is fundamentally different from the approach used in the rest of Europe, with the latter having strongly influenced the design of the Framework Guidelines. To a large extent, these differences reflect the particular challenges that a small, relatively isolated island system like the SEM faces in maintaining a secure supply and mitigating market power.

Our expertise and experience is being applied to influence and contribute pro-actively to the detailed design of European market integration.

Releasing sites suitable for power generation

At privatisation in the early 1990s, the four main power stations in Northern Ireland were sold to private companies. At the time, there was concern that the sale of the generators might result in power station sites being lost to the electricity industry in the future. It was therefore decided that the freehold of power station sites should be vested within NIE in a quasi-trustee role. For this purpose, the NIE Land Bank Business was established to manage the freehold of the power station sites.

There are a number of vacant sites contained within the Land Bank which are deemed to be suitable for the purpose of building an electricity generation station. These sites are at Belfast Harbour (site of the former Belfast West Power Station), Coolkeeragh and Kilroot. There are also a number of other sites within the Land Bank which are less likely to be suitable for electricity generation.

During 2010 we published a consultation paper to make the wider community aware of the Land Bank sites and to seek views on the future of these sites. Following our consultation we concluded that all sites listed in the consultation should be made available for sale/lease. Distinction will be made between sites suitable and sites unsuitable or less likely to be suitable for generation purposes as per the consultation. We issued NIE's Land Bank business with a direction to appoint an appropriately qualified and suitable person to act as an agent on its behalf. The agent will be responsible for issuing a request for proposals for the sites, taking receipt of proposals and acting as liaison to those interested in making proposals.

4. Gas



Highlights

- Domestic gas prices in the Greater Belfast area remained among the lowest in the UK and Ireland during 2010
- Supply competition started in Greater Belfast for domestic consumers and our decision on the Ten Towns area means more consumers will be able to avail of competition earlier
- Further progress has been made on delivering an all-island approach to gas by October 2012
- Our cost reporting project will allow us to more closely monitor performance against each gas distribution company's price control allowances

At a time when wholesale energy costs were rising our scrutiny of the regulated gas supplier in the Greater Belfast area resulted in no change to domestic consumer bills. A new supplier entered the Greater Belfast domestic market and our decision on market opening arrangements for the Ten Towns area will deliver supplier choice, to more consumers, earlier. More broadly, we continued to move forward arrangements for harmonising gas transmission systems across the island of Ireland.

Protecting the consumers interests through our scrutiny of tariffs

We protect consumers' interests by challenging utility companies to keep bills as low as possible. This scrutiny is focused on making sure that the bills which gas consumers pay reflect the cost of production.

An in-year review of Phoenix Supply Limited's (PSL) tariff was conducted in the latter half of 2010. Following our scrutiny, tariffs for gas consumers in the Greater Belfast area were left unchanged. This meant that

gas consumers in the Greater Belfast area were paying a lower standard gas tariff than the Republic of Ireland, and among the lowest in the UK.

We also indicated at that time that the outlook for gas prices was uncertain and pointed to some evidence of increasing wholesale gas costs – the largest component (55%) of consumer bills. In March 2011 we subsequently announced that the outcome of the annual review of the PSL would be delayed owing to volatility in international wholesale markets.





Supporting consumer choice of energy supplier

Our commitment to supporting consumer choice was demonstrated by two developments over the last year.

Firstly, gas consumers in the Greater Belfast area were able to choose their supplier from 1 November 2010, following the entry of firmus energy into the market. A key element of our job in facilitating the entry of the new supplier was our work on ensuring that the necessary switching system was in place. The switching system had to be a robust solution developed in a relatively short period of time and at low cost to consumers. Phoenix Natural Gas Ltd. (PNGL) developed and delivered the system as required by November 2010. We carefully

controlled the implementation of the system to ensure that all the new IT systems and procedures worked in tandem to provide a positive consumer switching experience. The switching system has been a major factor in facilitating the development of supply competition in the Greater Belfast area.

Separately we also set up and chaired a Gas Suppliers Forum to facilitate the development of the necessary procedures required to allow consumers to switch. These procedures constituted a Supplier Meter Point (SMP) Agreement. It defined how issues, such as residual consumer debt /credit, are handled between suppliers when a consumer switches. The SMP Agreement was successfully delivered for domestic market

opening in November 2010, at the same time as the consumer switching system.

Secondly, we carried out a public consultation on market opening in the Ten Towns area (the district towns outside Belfast currently supplied – under an exclusivity arrangement – by firmus energy). Following the public consultation, and after extensive engagement with a diverse range of stakeholders, we announced our decision in December 2010.

Our decision replaced the existing staggered timetable for the relinquishing of firmus energy's supply exclusivity to a more consolidated timetable. The decision to consolidate meant that the large Industrial and Commercial (I and C)



market across the Ten Towns area would open in October 2012. It also meant that the small I and C and domestic market would open across the Ten Towns area in April 2015. We are satisfied that the co-ordinated approach to market opening will allow more consumers to avail of effective competition earlier and at the lowest cost.

Monitoring the expenditure of gas companies

We reported last year on a project to assess the costs of network distribution licence holders – Phoenix Natural Gas (PNG) and firmus energy. This cost reporting project has now been implemented across all distribution licence holders.

Cost reporting will provide a useful feedback mechanism to monitor distribution companies' expenditure and outputs broken down into the following areas:

- the capital expenditure - which is construction activity by the contractor to lay and install the

gas pipe and the service that is used to connect the gas pipe from a public area to a home or business, with a meter to record its usage

- the operating expenditure - the cost required to run the business, such as staffing, maintenance, marketing, emergency procedures and other services required for operation of its day to day activities.
- the level of outputs achieved - such as number of connections by type of property, volume of gas used by consumers, km of pipe laid in the ground.

This reporting system will improve our understanding of activities and the associated costs, allowing us to more closely monitor performance against each operator's price control allowances. It will also allow comparisons of costs between gas distribution companies to ensure they deliver efficient outcomes to the benefit of consumers.

Common Arrangements for Gas

We continue to progress the Common Arrangements for Gas (CAG) project, which aims to harmonise gas arrangements on the island of Ireland.

This year has seen Ministerial approval for the CAG project and publication of the high level workplan by us and CER.

A significant amount of work has also taken place on the necessary workstreams to facilitate a go-live date of October 2012. The main workstreams are network codes, transmission tariffs, system operation and legislation. We have worked closely with DETI to prepare the ground for the necessary legislation and DETI have published a consultation on the subject.

5. Retail and Social



Highlights

- New suppliers entered the domestic electricity and gas markets, providing a choice to Northern Ireland energy consumers for the first time
- Our scrutiny of regulated electricity tariffs led to a price freeze for consumers
- We reviewed and published the new NIE Critical Care scheme, ensuring that vulnerable consumers receive service priority
- We published a key piece of research on debt issues for energy consumers after wide consultation and stakeholder engagement

2010 was the year of competition. Domestic consumers in different parts of Northern Ireland were able to choose their electricity or gas supplier for the first time. Fuel poverty in Northern Ireland continued to be a key issue. As well as contributing to high level considerations on tackling fuel poverty, we undertook initiatives to understand the needs of vulnerable consumers and address practical concerns.

Delivering supplier choice for consumers

We believe that consumers benefit from having a choice of energy supplier. Over the last few years we have been driving forward work to reduce barriers to competition, with the goal of encouraging new entrants into the domestic energy market.

In 2010 domestic energy consumers were able to choose their supplier for the first time. Airtricity entered the domestic electricity market in June 2010, as the first competitor to NIE Energy Supply (NIEES). firmus energy entered the domestic gas market in the Greater Belfast area in November 2010, as the first competitor to Phoenix Supply Limited. Both new suppliers are currently providing discounts off the tariffs offered by incumbents.

In facilitating the entry of these new suppliers we ensured that codes of practice, which are designed to protect the interests of consumers, were completed in consultation with the Consumer Council for Northern Ireland (CCNI). We have also been pro-active in making sure

that the systems to allow consumer switching between suppliers are as effective as possible. Working closely with NIE (T + D) we have progressively increased the switching capacity of its interim system. For electricity consumers, in October 2010, the switching capacity increased from 6,000 switches per month to the current limit of 7,500 switches per month. The limits in regard to gas consumers were increased from 300 per week at the start of April 2011, to 1,550 switches per week at the end of the same month.

Optimising competition

Our commitment to retail competition also means that we take longer-term decisions to promote choice for consumers. One such decision relates to the development of an unlimited switching system to enable domestic electricity consumers to switch supplier – called the ‘Enduring Solution’.

The Enduring Solution Project is also aimed at harmonising systems between all-island suppliers and the network operator.



The design phase of the project has been completed and the project is still on schedule for completion in May 2012.

Scrutinising electricity tariffs on behalf of consumers

Consumers have told us that rising energy bills is one of the things that concern them most. The people who work for us pay bills too. They know that their job is to challenge utility companies to keep their bills as low as possible. We recognise that things like rising international energy prices can exert an upward pressure on consumer bills. Our job is to make sure that the prices paid by consumers reflect the costs incurred.

After due scrutiny of allowed efficient cost levels, we completed the annual review of NIEES regulated electricity tariff. This included early engagement with key stakeholders, including CCNI and DETI.

We also produced a detailed briefing paper explaining all the movements of the separate tariff components and the reasons for these changes. We see this as an important way of openly explaining the movement in the regulated tariffs that consumers have to pay.

To protect customers from undue price volatility, in the 2010 review it was decided that it would be prudent to freeze the tariff at its 2009 level. Freezing the tariff meant that there was a mechanism to offset any unexpected rise in the forecast energy cost. We also committed to commence monitoring the NIEES under- or over-recovery position throughout the tariff year (Oct – Sept) on a monthly basis. Our monitoring commitment also extends to assessing the potential for an in- year tariff review during 2011.

NIE Energy Supply Price Control

We published the NIEES price control decision paper in March 2010, for the period from 1 April 2010 to 31 March 2011. The decisions were made on the basis of information available, data submitted, meetings held with NIEES and the information received during the public consultation. Operating cost allowance was set at £17.6 million – a reduction of £1.65 million from 2009-10. Work is ongoing on the next price control.

Transparency of market information

To provide greater transparency, we have collected, analysed and published useful information for stakeholders and potential new suppliers in the form of a new series of quarterly reports. We also issued our second annual Energy Retail Report. Both publications have been welcomed by various



stakeholders as contributing to the transparency of the sectors we regulate.

Assisting vulnerable consumers

We continue to work with partners to pursue ways to assist vulnerable consumers. For example we work with government departments, the Northern Ireland Fuel Poverty Advisory Group, Northern Investing for Health group and many others representing the vulnerable in our society.

In June 2010 we published research on helping consumers to avoid and manage debt. It provided information and the recommended way forward for helping consumers manage their debt. The results of the research are now being used to inform the Third Energy Package implementation exercise.

We continued to progress our Social Action Plan. This included reviewing and publishing the new NIE Critical Care scheme. This scheme aims to ensure that NIE (T + D) keep a list of those consumers who require electricity for essential or life-saving medical equipment. These consumers can then be given priority, as regards the provision of information, during planned or unplanned interruptions to supply.

We worked with DETI on the implementation of the European Renewable Energy Directive, which provides a framework for renewable energy development across Europe.

We used our sustainability strategy to inform our input to the Office of First Minister and Deputy First Minister (OFMDFM) sustainability action plan for Northern Ireland. Much progress has been made and we are now working with OFMDFM through the sustainability concordat group to help implement key actions.

We consulted on affordability issues for vulnerable consumers and issued a position statement together with the consultation responses in May 2010. Given the complexity of issues

involved, the consultation proposed a three-stage approach to going forward which was supported by respondents to the consultation:

1. the consultation document presented a set of high-level policy questions that we encouraged stakeholders to focus on prior to being able to effectively move forward;
2. a detailed analysis of options to be taken forward by appropriate fuel-poverty focused authorities;
3. implementation of the preferred option, given political policy direction and appropriate legislative tools.

We will endeavour, where possible, to contribute constructively to the debate and work in future.

6. Water



Highlights

- We completed an extensive investigation into the freeze/thaw water supply disruption incident and outlined a detailed Recovery Action plan
- Formal agreement was reached with the Department for Regional Development to guide our regulation of NI Water in a public funding context
- We published our assessment of NI Water's costs and performance against its Strategic Business Plan 2007-10 targets
- Our independent, expert analysis and views contributed to two external reviews of NI Water



The past year was marked by several significant developments relating to NI Water – both in terms of our regulation of the company and wider developments. The water company started, during 2010, operating its business in the context of price control targets set by us. We carried out a major investigation of the water company's response to the freeze/thaw incident during December 2010-January 2011. We published our assessment of NI Water's costs and performance between 2007 and 2010. The Assembly's Public Accounts Committee (PAC) conducted two separate inquiries into NI Water – on performance and procurement and governance. A further inquiry into procurement failings at NI Water was also carried out by the Department for Regional Development (DRD). We contributed to the PAC inquiry on performance and value for money and DRD's inquiry into procurement failings.

Investigating water supply disruption across Northern Ireland

Following major water supply disruptions, affecting approximately 450,000 consumers across Northern Ireland during December 2010-January 2011, we exercised our statutory powers by conducting an investigation into NI Water's handling of the incident.

Over an eight-week period, we carried out a detailed investigation into the causes and the extent of the supply disruption and the performance of NI Water during the incident. Several seconded and expert staff from water companies in Great Britain assisted us with our investigation. We also benefitted from the input of an

oversight committee, comprising of a range of senior experienced individuals from across the UK, who provided advice throughout the period of the investigation.

Our investigation report established, without challenge, the causes of the supply disruption and set out a Recovery Action plan for addressing the problems identified. The Recovery Action plan details 56 actions for NI Water, other statutory bodies and us to address (see Table 1 opposite for key findings). NI Water has acknowledged all of the conclusions from the investigation and is committed to delivering the actions in the Recovery Action plan that relate to them. The report on the investigation into the

Table 1: Key findings from our water supply disruption investigation report

- the winter weather was exceptional (1 in 100 year event in established records) but with a changing climate could recur in the near future.
- around 80% of the additional water demand caused by the freeze/thaw leaked from domestic and business water pipes - the remainder was lost from NI Water's network.
- the water mains in Northern Ireland are relatively new compared with other parts of the UK, and performed as well as could be expected. There is no need for an immediate change in the mains infrastructure investment levels.
- NI Water was not prepared for a crisis of this magnitude and in particular there was a failure of the company's executive leadership.
- the company's execution of emergency planning was deficient, particularly in respect of communication with consumers.
- front line operational teams worked effectively in very challenging weather conditions.

issues arising from a largely publicly funded water company operating in a regulated environment. The principal stakeholders were – the Drinking Water Inspectorate, the Northern Ireland Environment Agency and the Consumer Council for Northern Ireland. To complement the agreed process, a Memorandum of Understanding (MoU) with DRD was signed and laid in the Assembly. NI Water formally withdrew its objection to PC10 following the signing of the MoU between us and DRD.

Following confirmation of the public expenditure budget and the shortfall in funding compared to the PC10 Final Determination, a review and resetting of targets and outputs for the PC10 period has commenced.

Protecting the interests of business consumers

We are required under the Water and Sewerage Services (NI) Order to approve NI Water's Annual Scheme of Charges.

The key purpose of this approval is to ensure charges are in line with the price limits determined by the associated price control, reflecting the delivery of services at lowest reasonable cost. The approval process includes a review of charges for the supply of drinking water, the collection, treatment and disposal of wastewater, road drainage and surface water, and the treatment and disposal of trade effluent. We seek to ensure that there is

Freeze/Thaw incident 2010-11 is available on our website: www.uregni.gov.uk/uploads/publications/Investigation_report_into_the_freezethaw_incident_2010-11.pdf.

Delivering lower costs and improved levels of service to consumers

We published our price control determination for NI Water, PC10, in February 2010. PC10 focuses on delivering efficient and high performing water and sewerage services, over the period 2010-13. It established a clear baseline and set challenging efficiency targets (amounting to £91 million savings to consumers), as well as identifying benchmarks for service improvement.

NI Water initially indicated that it could not accept our final determination. In this situation the law says that we should refer the matter to the Competition Commission for adjudication.

While we were commencing preparations for referral of our PC10 determination to the Competition Commission, we engaged with DRD regarding the funding of NI Water. The discussion with DRD focused on the ability of NI Water to finance its activities (given its dependency on public expenditure) and deliver the PC10 operational and efficiency targets. A process was developed and agreed between us, DRD and other principal stakeholders to address funding

no undue preference or undue discrimination by NI Water in setting charges between different customer groups.

Consultation on the Scheme of Charges 2011-12 began in August 2010 and was approved in March 2011.

The Scheme of Charges 2011-12 is the second to be based on the PC10 final determination which reduced the NI Water bid for funds by £91 million over the three-year period. While it was still necessary to increase prices over this period, the resultant increase in metered business bills was approximately 13% less (relative to 2009-10 prices) than the amount originally sought by NI Water.

Monitoring NI Water's performance

We examined NI Water's performance, against targets outlined in the company's Strategic Business Plan, in its first three years of operation. Our assessment examined NI Water's financial performance, efficiency, and overall service performance between 2007 and 2010.

Key findings from our assessment were:

- NI Water largely met the challenges of delivering major infrastructure investment and upgraded water and sewerage services;
- there was a notable increase in the company's operating costs over the period (much of which can be attributed to service charges for Public



Private Partnerships (PPP) contracts, increased power and chemical costs);

- the company successfully delivered enhanced efficiency targets of £53.8 million (at 2006-07 prices from a 2003-04 base), reducing the operational efficiency gap to the frontier English and Welsh company from 49% to 40% and, an improved overall service performance - gaining 23 points to give it an Overall Performance Score of 121.

We concluded that while NI Water has undoubtedly made progress in efficiency and overall performance terms, further progress will be necessary during the PC10 period.

Informing external reviews of NI Water

Our independent, expert role also led to us being asked to contribute to two separate reviews of NI Water during 2010.

In early 2010 we contributed to an independent review, commissioned by DRD, into procurement failings at NI Water.

Later in 2010 we were specifically asked to contribute to a review commissioned by the Assembly's Public Accounts Committee (PAC) on 'Measuring the performance of Northern

Ireland Water'. As well as providing information to the Northern Ireland Audit Office, who prepared the report on behalf of the PAC, we participated as a witness at a PAC public hearing in late June 2010. The PAC's report was published in March 2011 and, in relation to our role, it commented as follows: 'an independent regulatory regime has the potential to play an important role in the identification and delivery of real and meaningful efficiencies'.

Enforcing systems of planning and governance procedures

There remain some data and governance issues with NI Water.

We continue to engage and monitor on a quarterly basis NI Water's delivery of formal undertakings to improve data quality. These undertakings were provided to us in January 2009, and relate to breaches of the company's licence regarding systems of planning and internal control. NI Water has made some progress addressing data shortcomings; we have not however released them fully from their formal undertakings but will consider this following a review of the 2010-11 Annual Information Return.

7. Energy Efficiency and Sustainability



Highlights

- £6 million of funding was provided to projects targeting vulnerable consumers under the Northern Ireland Sustainable Energy Programme
- We issued 29% more Renewables Obligations Certificates compared to last year
- Along with DETI, we advanced discussion on support for incentivising the development of renewable electricity generation in Northern Ireland
- We continued to effectively operate the Climate Change Levy despite a 100% growth in generators applying for exemption



The publication of DETI's Strategic Energy Framework in September 2011 was a major development. Its target of 40% of electricity generated from renewable sources by 2020 is a major reference point for our work on environmental sustainability in the years to come. Policy debate on sustainable development continues apace: we contributed to major UK-reviews on electricity market reform and the carbon floor price, and also on an Assembly inquiry on renewable development in Northern Ireland. We continued to administer practical responses to energy efficiency and sustainability (e.g. the Northern Ireland Sustainable Energy programme).

Delivering sustainable energy for vulnerable consumers – the Northern Ireland Sustainable Energy Programme

The Northern Ireland Sustainable Energy Programme (NISEP) – previously called the Energy Efficiency Levy – provides funding to projects that target vulnerable consumers. During 2009-10, the most recent

year that reports are available, £6,183,559 of funding was awarded.

Approximately 80% of funding was directed towards schemes for customers who may be at risk of fuel poverty (priority). The remaining 20% of funding was directed to non-priority domestic and non-priority commercial schemes.

Table 2: NISEP in numbers

- total funding (including partner monies) of nearly £10 million was spent on NISEP schemes. Funding from NISEP amounted to an average level of £7.354 per electricity consumer
- total lifetime energy savings were a substantial 708.919 GWh
- 142,765 tonnes of carbon savings
- £61,760,474 gross customer benefit savings
- 54% (£937,722) of incentives earned were recycled into additional energy efficiency and/or fuel poverty initiatives

Nineteen schemes were successfully submitted, run and subsequently completed. Thirteen of these schemes were managed by NIEES, four by Energia, one each by ESB Independent Energy (ESBIE) and firmus energy. In 2009-10 there were seven priority schemes, three non-priority domestic and nine non-priority commercial schemes.

Table 2 sets out the key numbers relating to NISEP.

NISEP set funding aside for schemes aimed at priority group customers i.e. households at risk of fuel poverty and provided a package of measures that included; hot water cylinder and fabric (walls and roof) insulation,

as well as heating system replacement (fuel switching) including controls.

We know from the feedback provided by vulnerable consumers that NISEP funding makes a real difference to the quality of their lives (see for example Table 3 below).

NIEES and Energia each undertook four commercial schemes and a ninth commercial scheme was undertaken by ESBIE in its first year of full participation in the NISEP. Technologies being installed included energy efficient lighting, variable speed drives and liquid refrigerant pumping.



Supporting renewables development

We have a statutory responsibility for the Northern Ireland Renewable Obligation (NIRO). The NIRO is a statutory requirement on electricity suppliers to source an increasing amount of their electricity from renewable sources. Suppliers can meet their obligation by either presenting Renewable Obligation Certificates (ROCs) or paying into a buyout fund. ROCs are issued directly to renewable generators.

The buyout price for the 2009-10 year was £37.19 per MWh; the amount of buyout "recycled" per ROC presented was £15.17. The total value of a ROC to a supplier or generator equals the value of the buyout plus the value of the recycle payment; £52.36 for the year 2009-10.

Within the year 2009-10, 103 additional generating stations in Northern Ireland received accreditation to claim ROCs. The total number of ROCs issued for this year was 800,168; a 29% increase on last year's figure of 619,125.

Table 3: A consumer's feedback on NISEP funding

Mr and Mrs S are pensioners in their late 80s. They had an oil fired central heating system, which seldom worked and if it did manage to switch on, it was completely inefficient. The boiler was over 40 years old, an obsolete model, and the plumber could no longer find any replacement parts for it. Mr and Mrs S were desperately trying to get something done with it, as they didn't know how they were ever going to be able to pay for replacing it. They were referred to the Warmer Ways To Better Health Scheme.

"I just wanted to thank you so very much. The heating was installed this week and it's just wonderful! We can't get over it. We never got anything free in our lives and we had no idea how we would ever be able to pay for a new system because we only have our pensions. When the surveyor came to see the boiler he couldn't believe it. I don't think he'd ever seen anything like it. It's great to have the heat because the nights are getting cold now and it's lovely to get up in a warm house." (Mrs S)

Along with DETI, we published a report on appropriate forms of support for incentivising the development of renewable electricity generation in Northern Ireland - in the context of the SEM. The report was developed in conjunction with external technical advisors, and draws on research that was undertaken during 2010, following the introduction of a Feed-In Tariff in Great Britain. The report draws conclusions, through a combination of quantitative modelling and qualitative assessment, on how to facilitate the achievement of Northern Ireland's policy goals for renewable electricity generation to 2020.

Information from the report has been provided to the Enterprise, Trade and Investment Committee to help inform its inquiry into renewables development in Northern Ireland. Additionally, information from the report has also been used to help respond to the Department of Energy and Climate Change proposals on Electricity Market Reform in GB and Carbon Floor Price in the UK.

The Climate Change Levy Exemption Scheme

We continue to manage and administer the Climate Change Levy (CCL) scheme, issuing Levy Exemption Certificates (LECs) to accredited generators in Northern Ireland and Ireland.

The CCL is a tax on energy used by businesses. It was announced in the March 1999 budget, and the scheme

commenced on 1 April 2001. In relation to electricity the CCL requires suppliers to charge commercial customers (i.e. business not domestic, governmental or charitable customers) an extra 0.47p per kWh (i.e. £4.70 per MWh). Electricity produced from designated renewable and good quality Combined Heat and Power (CHP) sources is exempt from CCL, and is issued with exemption certificates which can be bundled with the power when sold to a supplier.

We published guidelines for generators wishing to participate in the scheme and a further 12 stations were audited. The scheme has continued to operate effectively with more than a 100% increase in generator applications.

Providing fuel mix information to consumers

Electricity suppliers are required to specify in billing information and promotional materials the contribution of each energy source to the overall fuel mix of the supplier over the previous year. Additionally, suppliers are required to provide information

regarding the environmental impact resulting from the electricity produced by the fuel mix of the supplier over the same period.

Fuel Mix Disclosure is a benefit to consumers because it helps them to make choices based on the environmental impact of the electricity they purchase.

Acting in conjunction with CER, as the regulatory authorities, we have provided electricity suppliers on the island their fuel mix and the average SEM pool mix for comparison purposes. The information is available on our website and suppliers include it in their bills.

We are now working with CER and DETI on an enduring calculation methodology based on Guarantees of Origin and Generator Declarations. The calculation methodology will make it easier to work out the fuel mix. This enduring solution will be progressed with DETI as part of the implementation of European Directive 2007/72/EC concerning common rules for the internal market in electricity.



8. Efficient and Effective Regulator



Highlights

- We secured full accreditation of our IT network and system in line with the UK government standard
- Our unique status as a multi-utility regulator has allowed us to advance a cross utility project aimed at delivering best practice regulation across sectors
- We enhanced our engagement with stakeholders, for example, by initiating a new quarterly electronic information bulletin, UR News
- Our rate of sickness absence compared favourably with the Northern Ireland public sector at 2.9%

The key context for our work as an organisation during 2010-11 was the continuing impact of the economic downturn on public sector resources. Our operating budget continues to reduce and we remain committed to expenditure restraint. We initiated a review of our corporate strategy. Our focus on being an effective regulator has been advanced through the development of a workstream on cross utility working.

Objectives

We initiated a mid-term review of our Corporate Strategy 2009-14. The review will engage with stakeholders to seek their views and is expected to conclude later in 2011.

Our Forward Work Programme (FWP) sets out what we intend to deliver each year. Appendix 1 sets out all of the FWP projects and how we performed on each one. Overall, we achieved or partially achieved, 90% of the time-limited tasks listed to be completed within the 2010-11 year.

Our financial position

As a Non-Ministerial Government Department, our funds are voted by the Northern Ireland Assembly. We account for these annually in our statutory accounts which you can get from the Stationery

Office or from our website (www.uregni.gov.uk).

There is a commentary on our financial statement for the year ended 31 March 2011 in Appendix 2 but table 4 highlights some of the key numbers.

We are committed to the prompt payment of bills for goods and services received in accordance with the Late Payment of Commercial Debts (Interest) Act 1998 and British Standard BS 7890. During 2010-11, 98% of undisputed invoices were paid within this standard. In line with other NI departments and following Dear Accounting Officer (DAO) 12/08 guidance, we have aimed to promptly pay invoices within a 10-day target. In the past year 99% of invoices have been paid within 10 days of approval.

Table 4: Expenditure	Actual
Operating Costs (gross)	7,084,000
Licence fees collected	(6,958,000)*
Operating costs (net)	126,000
Net budget underspend	13,000

* Includes income recovered from the Buy Out fund

During the year, electricity directorate consulted on the apportionment of electricity licence fees and a revised methodology will be put in place for 2011-12.

Governance and audit

The Department of Finance and Personnel (DFP) appoints the Chairman and members of our Board. Two new members, Bill Cargo and Richard Rodgers, were appointed during the year. Shane Lynch was appointed as Chief Executive from 3 January 2011 in succession to Iain Osborne. DFP appointed Shane Lynch to the Board and as Accounting Officer.

We are accountable to the Northern Ireland Assembly and produce an Annual Report, which DETI lays before the Assembly. Our decisions are subject to external review by, for example, the Competition Commission and the Courts. Assembly Committees may ask for evidence to be given on matters relevant to their work.

We received an unqualified opinion from the Northern Ireland Audit Office (NIAO) in respect of the 2010-11 accounts.

Our internal audit is outsourced to Tribal Consulting. Areas tested included some finance functions, Human Resources, Information Technology, Project Management, Price Controls and Licensing. We achieved an



overall satisfactory assurance rating for 2010-11.

Supporting staff development

We aim to be an employer of choice. Our staff group is professionally diverse and mostly directly recruited but we also have a small group of secondees from DETI and DFP. Our Human Resource (HR) priorities included:

- development of an HR Strategy;
- delivery of policies including those supporting retention and skills development; and
- consulting on a new draft equality scheme.

We recognise the value of investing in, and supporting the development of our staff. This has included providing in-house training (such as on economic regulation), supporting staff on work-related higher education and enabling staff to access other learning and development opportunities

Our absence rate is 2.9% (7 days per employee) which compares favourably with the rest of the Northern Ireland public sector.

Enhancing our information technology and procurement systems

We take the maintenance and security of our Information Technology and Information Management systems seriously. Our Information Management Committee has made considerable progress on enhancing our IT and information management systems. These new information governance arrangements are providing a framework for the delivery of secure and efficient information storage and transfer. The robustness of our IT security processes has been externally validated. We secured full accreditation of our IT network and system under the Risk Management Accreditation and Document Set (RMADS) process. This enabled us to achieve full IT security accreditation as defined by the standard set by the Communications-Electronics Security Group (CESG). CESG is the information assurance arm of GCHQ - the UK Government's National Technical Authority.

We are working towards a full migration to the Northern Ireland Civil Service managed service provider of IT services.

Separately we have taken steps to enhance our procurement practice. We have established a cross-directorate project group to move forward on delivering

procurement best practice. Our procurement guidelines incorporate Central Procurement Directorate best practice and we have also secured access to a number of procurement frameworks.

Freedom of Information

In 2010-11 we received 7 requests under the Freedom of Information Act. Responses to all requests were issued within the statutory period prescribed by the Freedom of Information Act 2000.

Additionally, we also reviewed our procedure for dealing with requests. This led to the development of a new procedure which was provided to all of our staff. A staff training day on Freedom of Information and data protection requirements took place early in the 2011-12 business year.

Communication with stakeholders and consumers

We continued to take steps to enhance our communication during 2010-11.

Our stakeholder engagement programme continued to carry out activities which gave us more opportunities than ever to reach out to a range of different organisations. During the last year we initiated new activities to support our stakeholder engagement.

In January 2011 for example, we organised a major conference on 'Financing Infrastructure', which was attended by over 80 people from a diverse range of stakeholders. This conference was organised as part of a discussion which we facilitated on financing infrastructure options (we also issued a discussion paper around the same time on the same subject).

Separately, we also initiated an e-zine in late 2010, an electronic bulletin to provide a new source of information about our work. The e-zine is posted on our website, and also sent direct to the e-mail addresses of our stakeholders, each quarter.

We recognise for consumers and our stakeholders that our work can sometimes be complex. For that reason, we produced a 'Guide to Regulation' during the year. The Guide provides, in one document, an accessible introduction to economic regulation and an overview of utility industries in Northern Ireland.

We continue to enhance our online communications, and we carried out some small changes to our website to improve content management and access to information about us and our work. This work has helped us improve the functionality of our site and we



now have over 500 stakeholders signed up to our news alert service.

Evidence of the success of our communications initiatives continues to be demonstrated by consumer research. For example, the majority of respondents continue to express confidence in our ability to carry out our work and consumers thought that robust challenge by us was one of the main reasons why energy prices remained the same in Northern Ireland during 2010-11.

Our legal work

Much of our work requires legal input and analysis. We have been engaged in several important projects during the last year.

We have played an important role in the implementation, in Northern Ireland, of the Third European Package of Directives and Regulations on market liberalisation in energy (IME3). This has included close working with DETI on relevant parts of the IME3 implementing regulations and consultation on these. We have also progressed the development of new or

modified licence conditions and amendments to industry codes. Finally, we have worked with DETI on several other regulatory instruments.

In light of acquisitions of a number of licensed companies in NI this year, we legally reviewed the licensing aspects.

We continue to exercise legal scrutiny on the development of the new gas storage regulatory framework and the creation of suitable licensing arrangements.

We have assisted in the preparation of appropriate licence modifications to reflect the Memorandum of Understanding and consequent agreement (PC10 Agreement) between us and the Department for Regional Development.

Promoting best regulatory practice – our cross-utility project

During the past year we developed a cross-directorate work programme. Underpinning this has been the need to ensure consistency of approach, where appropriate, across our organisation and to keep abreast of regulatory developments elsewhere - particularly against a changing policy context. From September 2010 the working group responsible for this project has reported to the newly established Cross Utility Board Advisory Group.



There have been developments on a number of workstreams including changing policy context and its implications, the form and duration of price controls, incentivisation, risk and uncertainty and cost of capital and financeability. The working group has also taken on responsibility for developing the way forward on 'Financing Networks'. A discussion paper on this topic was published in December and was the focus of a conference which took place in January 2011.

Board and Board Sub-Committees

Our Board formally met ten times during 2010-11.

The board reviewed its effectiveness during the year and enhanced board processes

and procedures. The enhancements included: reviewing and updating terms of reference for board sub-committees/groups, establishing a new board sub-group on cross utility issues and, optimising the information received by the board.

The senior management team continued to meet weekly.

The Audit Committee met four times. Its membership is non executive comprising James Oatridge (Chair), Clive Elphick and Richard Rodgers. Etain Doyle and Chris Le Fevre moved to the Cross Utility BAG and Remuneration Committee respectively. The Committee is supported by members of the executive team attending by invitation. The NIAO and the

Head of Internal Audit have a standing invitation.

The Remuneration Committee met twice. Its membership is non executive comprising Chris Le Fevre, Philip Johnson and Alan Rainey. Etain Doyle moved to become the Cross Utility BAG Chair during the year. The Chair of the Board, Peter Matthews, also attends.

Board Advisory Groups (BAGs) for Water, Energy (covering Electricity and Gas) and Cross Utility projects meet bi-monthly. The Cross Utility BAG, which was established following the board effectiveness review, had its first meeting in September 2010. Membership of the BAGs comprises non executive directors (with relevant utility experience) and senior staff working in the utility directorates. They provide a vehicle for detailed technical scrutiny of key policy issues informing the decision making processes at board level.

The SEM committee meets on a regular basis to take decisions in respect of the exercise of relevant functions of CER or the Utility Regulator in relation to a SEM matter on behalf of each regulator. Northern Ireland's current SEM Committee members (as of 31 March 2011), appointed by DETI, are Shane Lynch (CEO) and Alan Rainey (Member of Board).



Appendix 1: Forward Work Programme Targets

Ref	Strategic theme	Projects	Actions to develop in 2010-11	Status at 31 March 2011
1	Monopoly Regulation	Electricity Supply Price Control	Complete 2010-11 Supply Price control. Progress analysis on further tranches of deregulation. Begin work on longer term Price Control to be in place by end March 2011. Include work on risk and margin.	Partially achieved
2	Monopoly Regulation	Electricity & Gas tariffs approvals	Ensure transparent and accurate approval of regulated supply tariffs.	Achieved
3	Monopoly Regulation	GSS	Develop and review Guaranteed Standards of Service (GSS) for electricity.	Partially achieved
4	Monopoly Regulation	GSS	Implement GSS in line with legislation after reporting on customer research in 2009-10.	Revised
5	Monopoly Regulation	GSS	Develop GSS as appropriate.	Partially achieved
6	Monopoly Regulation	SONI Price Control	Finalise SONI Price Control for period commencing 1 October 2010. Determine associated tariffs.	Partially achieved
7	Monopoly Regulation	T and D Price Control	Commence detailed work on T&D Price Control for period commencing 1 April 2010 - approaches paper, review of RP4, data collection, detailed project plan.	Achieved
8	Monopoly Regulation	SEMO Price Control	Finalise Single Electricity Market Operator (SEMO) Price Control for period commencing 1 October 2010. Determine associated tariffs.	Achieved
9	Monopoly Regulation	Rural quality of supply	Review adequacy of rural quality of supply	Achieved
10	Monopoly Regulation	Price Control	Implementation of cost reporting. Consider future of Phoenix Supply Limited (PSL) price control.	Achieved
11	Monopoly Regulation	Price Control	Begin work on Phoenix Distribution Price Control 2012. Decision on alignment of price controls.	Achieved
12	Monopoly Regulation	Price Control Customer Views	Work with CCNI and NI Water to refine the approach for obtaining and incorporating customer views in PC13.	Revised
13	Monopoly Regulation	Price Control UR and NI Water Information Exchanges	Develop and consult on approach to PC13.	Partially achieved
14	Monopoly Regulation	Price Control Value for Money	Review data requirements, trends and methodologies for benchmarking NI Water. Develop robust foundation for setting challenging efficiency targets for Opex and Capex in PC13.	Ongoing
15	Monopoly Regulation	Water regulation	Keep NI Water Licence under review to maintain fitness for purpose amending where necessary.	Ongoing

Ref	Strategic theme	Projects	Actions to develop in 2010-11	Status at 31 March 2011
16	Monopoly Regulation / Sustainability	Price control	Cross-directorate group to feed into Price Control work. Review (commenced 4th Qtr 2009) of price controls on a cross-utility basis.	Achieved
17	Monopoly Regulation / Sustainability	Price Control Ministerial Guidance	Work with other statutory stakeholders to inform the development of the Minister for Regional Development's social and environmental guidance for PC13.	Revised
18	Sustainability	Continue to operate effective administration of the LEC/ROC and REGO systems.	Work with Ofgem to further develop options for the administration of both LECs and Renewable Energy Guarantees of Origin system (REGOs).	Achieved
19	Sustainability	Contributing to wider government policy	1. Work with DETI in respect of interpretation and implementation of the DETI Strategic Energy Framework (SEF). 2. Work with DETI to help develop policies in relation to the renewable heat in Northern Ireland.	Partially achieved Achieved
20	Sustainability	Fuel Mix Disclosure	Work with DETI and CER to develop enduring solution for Fuel Mix Disclosure.	Partially achieved
21	Sustainability	Gas development	Progress work on accelerating gas connections in serviced areas. Consider options for extension of gas network. These will both be progressed as part of the Gas Strategic Development Group.	Achieved
22	Sustainability	Gas Storage	Work with stakeholders to facilitate transparent storage regulatory framework.	Achieved
23	Sustainability	Keeping our own house in order	Identify actions to improve our own energy efficiency and impact on the environment.	Achieved
24	Sustainability	Price Controls	Monitor NI Water's performance on PC10 sustainability commitments. Engage with key stakeholders in the development of sustainability strategies for NI Water in PC13.	Ongoing
25	Sustainability	Renewables	Work with DETI to review support mechanisms for renewable generation	Achieved
26	Sustainability	Renewables	Work with DETI to progress implementation of the Renewables Directive	Partially achieved
27	Sustainability	Security of Supply		Target relates to 2011-12 year
28	Sustainability	Security of Supply	Consider econometric demand inputs into capacity statement/pressure report.	Revised
29	Sustainability	Smart Metering	Identify any outstanding technical issues and agree proposal for assessment to allow detailed cost benefit analysis in electricity. Gas to work within smart metering group to assess potential for gas smart meters.	Partially achieved

Ref	Strategic theme	Projects	Actions to develop in 2010-11	Status at 31 March 2011
30	Sustainability	Water Resource Management	Engage with DRD in the development of requisite regulations for Water Resource Management Plans to secure commencement as appropriate following the outcome of the Executive's consultation (subject to implementation of the consultation). Give consideration to leakage methodologies and ELL calculation (subject to provision of water resource strategy).	Achieved
31	Sustainability	Review Performance	Consider and develop monitoring and benchmarking processes for performance against sustainability indicators in conjunction with statutory partners	Partially achieved
32	Protection	Business bills inquiry	Publish results of current inquiry into business bills, consider and consult on regulatory responses	Achieved
33	Protection	Data quality and information systems	Monitor improvement in NI Water's accuracy and reliability of information.	Achieved
34	Protection	Review of Regulatory Accounts	1. Review of NI Water Regulatory Accounts after submission on 15th July. 2. Monitor and analyse accounting policies	Achieved Achieved
35	Protection	Annually Review and Approve NI Water Scheme of Charges	1. Consider approval of NIW Scheme of Charges - Process. 2. Publish Report on NI Water Scheme of Charges.	Achieved Achieved
36	Protection / Sustainability	Annual Reporting	1. Issue AIR Guidance (AIR 11) to NIW April 2010. 2. NIW Submit Annual Information Return 15th July 2010. (AIR10) 3. Publish Annual Cost and Performance Report December 2010. 4. Review annual land disposal return.	Achieved Achieved Achieved Achieved
37	Protection / Sustainability	Encouraging energy efficiency	Implement the Northern Ireland Sustainable Energy Programme (NI SEP) and consider enhancements.	Achieved
38	Protection / Sustainability	Monitoring Performance	1. Quarterly Capital Investment Monitoring (each financial quarter). 2. Monitor and report on NI Water emergency planning and incident reporting as required.	Achieved Achieved
39	Protection / Sustainability	Social action and fuel poverty	Implement year two Social Action Plan (SAP) commitments – raising access awareness, progress actions to help consumers avoid / manage debt, work with s75 groups and undertake appropriate research.	Partially achieved
40	Protection / Sustainability	Affordability tariffs	Consider and implement way forward in light of 2009-10 consultation.	Achieved
41	Competition	Branding separation	Finalise plans for full branding separation in the electricity sector. Investigate branding implications for gas sector from Third Package.	Achieved

Ref	Strategic theme	Projects	Actions to develop in 2010-11	Status at 31 March 2011
42	Competition	Effective Market Opening Structures	Work in collaboration with GMOG and SIG and relevant internal teams to ensure market opening structures (switching, change of supplier) operate effectively and to ensure necessary data transparency to allow new suppliers access to the data they need to compete effectively.	Achieved
43	Competition	Electricity systems to enhance competition	Systems implementation: Stage 3 implementation of ESOS project to implement long term electricity switching process.	Achieved
44	Competition	Electricity systems to enhance competition	Progress work with CER, NIE and ESB, including engagement with all-island suppliers, to establish effective armonized retail processes and to ensure their implementation in parallel to the overall ESOS project.	Achieved
45	Competition	Interconnector issues	Develop use of Moyle Interconnector, including systems, further options for trading, review (80MW) export limit.	Partially achieved
46	Competition	Market coupling	Work with FUI Group/Ofgem to enable further market integration of BETTA/SEM Markets.	Partially achieved
47	Competition	Metering		Target relates to 2011-12 year
48	Competition	MOSSG	Industry meeting on strategic retail issues.	Achieved
49	Competition	NIE PPB and GUAs	Implement any decision(s) to cancel GUA(s) and review options for the future of the NIE PPB business.	Achieved
50	Competition	Review of DCs/NDCs	Development of appropriate processes to improve market liquidity and complete the Directed Contracts (DC) process to mitigate market power.	Partially achieved
	Competition	Landbank	Consider actions to release landbank so as to facilitate generation investment	Partially achieved
51	Competition	Publishing more evidence	Second Annual Energy Report, developed in collaboration with Electricity and Gas Directorates, will also include sustainability related data. Development of data set primarily for use in ERR.	Achieved
52	Competition	Retail Roadmap	Finalise policy development in relation to retail roadmap. Implement actions and regulatory regime as defined in Retail Roadmap process including follow up actions in relation to the 2009-10 Skyplex and Poyry studies on K-factors and regulated tariffs.	Partially achieved Partially achieved
53	Competition	Preparation for domestic market opening	To complete the necessary preparatory work to ensure domestic market opening can happen smoothly. This includes work with relevant suppliers, T&D, CCNI, etc.	Achieved
54	Harmonisation	Review of locational signals in the SEM	Implement new arrangements for treatment of GTUoS and TLAFs.	Partially achieved

Ref	Strategic theme	Projects	Actions to develop in 2010-11	Status at 31 March 2011
55	Harmonisation	Capacity payment mechanism	Capacity Payment Mechanism (CPM) Medium Term Review. Series of consultations, analysis planned for 2010. Also plan to carry out the annual calculation of the Capacity Pot for 2011.	Partially achieved
56	Harmonisation	Progressing CAG workstreams	Subject to finalisation of legislative timetable, implementation of project plan including legislative requirements, drafting of codes, licences and contracts. Continue work to improve Moffat arrangements.	Achieved
57	Harmonisation	Security of supply	Following 2009 consultation, support DETI in revising the NI Fuel Security Code. Continue involvement in All island project (Joint steering) group Security of Supply Working Group.	Partially achieved
58	Harmonisation	SEM	Monitoring the SEM to mitigate the potential abuse of market power.	Partially achieved
59	Harmonisation	TSC Review	Review of Trading and Settlement Code (TSC) regarding alignment of TSC and tariff years, legal consistency and Grid Code interaction.	Revised
60	Harmonisation / Sustainability	Demand Response	Review best proactive approaches to achieving high levels of Demand Response and produce recommendations.	Achieved
61	Harmonisation / Sustainability	Grid developments	Work with industry to develop a Grid Development Strategy (GDS) for NI.	Partially achieved
62	Regulatory Framework	Protection of customers	To co-ordinate the implementation of the EU 3rd Package in relation to retail and consumer issues via a cross directorate approach.	Achieved
63	Regulatory Framework	Act on Outcome from Executive Consultation	1. Interpret effect on regulatory framework and work with statutory stakeholders to interpret and implement changes as necessary. 2. Develop programme to amend licence and action as necessary.	Revised Revised
64	Regulatory Framework	Investigation of Competition Complaints	Revised UR Guidance in its role as National Competition Authority.	Partially achieved
65	Regulatory Framework	Communication & Education	1. Review Walker and Cave reports. 2. Maintain communication with wider stakeholders and consumers through PC13. 3. Consider NIW's approach to promote water efficiency.	Revised Partially achieved Partially achieved
66	Regulatory Framework	Developing our approach to competition law	Develop competition law awareness in the wider All-island and EU legislative context (e.g. by participating in OFT Concurrency working group).	Achieved
67	Regulatory Framework	EU issues	Work with DETI and European Commission on necessary IME 3 Implementation measures for Northern Ireland.	Achieved

Ref	Strategic theme	Projects	Actions to develop in 2010-11	Status at 31 March 2011
68	Regulatory Framework	EU issues	Monitor roll-out of EC Regulations 713/2009, 714/2009 and 715/2009 and ensure consistent application in line with CAG implementation and the SEM market.	Achieved
69	Regulatory Framework	EU issues	Monitor closely drafting of European network codes. Participate in Regional Initiatives, workshops and Directive consultations.	Achieved
70	Regulatory Framework	Gas licences review		Target relates to 2011-12 year
71	Regulatory Framework	Supplier last resort	Run a trial exercise to test systems.	Achieved
72	Regulatory Framework / Sustainability	Electricity grid standards, connection and UoS policies and private networks	Review of standards planning and operating standards, connection and use of system policies (where necessary for renewables integration) and arrangements for private networks.	Partially achieved
73	Organisational	Good governance	Review continued compliance with latest guidance issued by Equality Commission.	Achieved
74	Organisational	Good governance	Implement any actions emerging from the board effectiveness review and support the programme of board re-appointments.	Achieved
75	Organisational	HR processes	1. Review operation of new performance management framework. 2. Agree and progress HR policy work programme with Staff Representative Committee.	Achieved Achieved
76	Organisational	Information technology	Develop arrangements for ICT service provision.	Achieved
77	Organisational	Regular publications	Produce Utility Regulatory first International Financial Reporting Standards (IFRS) based resource accounts.	Achieved
78	Organisational	Stakeholder Communications	Produce and deliver an agreed stakeholder communications programme.	Achieved
79	Organisational/ Sustainability	Procurement	Review procurement arrangements in light of Central Procurement Directorate (CPD) guidance and explore opportunities for joint arrangements with other regulators.	Achieved

Appendix 2 – Financial report for the year ended 31 March 2011

Central Government Financing

£126,000 was borne by central government in respect of expenditure on areas not covered by current licences such as management, on behalf of HM Customs and Excise, of the Climate Change Levy Exemption scheme, the Electricity (Guarantees of Origin of Electricity Produced from Renewable Energy Sources) scheme, the Renewables Order (Northern Ireland) 2005 scheme and notional costs.

Licences

A breakdown of licence fee income is set out in Table 1 below.

Table 1: Licence Fees by Utility	Total Licence Fees (000s)
Electricity	3,358
Gas	1,705
Water	1,582

We also collect fees on behalf of the Consumer Council. These are for work done under the Energy (Northern Ireland) Order 2003 and Water and Sewerage Services (Northern Ireland) Order 2006. The total fees collected were £960,344, of which £204,079 was attributed to electricity, £153,059 to gas and £603,206 to water.

Accounts

The Statement of Comprehensive Net Expenditure shows that salary costs rose in line with the increase in staff numbers and inflation from the previous year - £4,351,000 for 2010-11 against £4,101,000 for 2009-10.

The percentage of staff costs to total costs in 2010-11 was 61%. In 2009-10 the equivalent figure was 62%.

The Utility Regulator's gross expenditure in pursuit of its objectives as detailed in the Statement of Operating Costs by Departmental Strategic Objectives (see Table 2 below) was as follows.

Table 2: Expenditure by Objective	2010/11 (£000s)	2009/10 (£000s)
Objective A (electricity)	3,720	3,119
Objective B (gas)	1,746	1,572
Objective C (water)	1,618	2,019

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

The Statement of Comprehensive Net Expenditure (the public sector equivalent of an Income and Expenditure Account) and a schedule setting out our financial performance in pursuit of our objectives are set out below at tables 3 and 4. These figures were subject to final audit at the time of publication of this Report.

Table 3: Operating Cost Statement	2010/11 (£000s)	2009/10 (£000s)
Programme Costs		
Staff Costs	4,351	4,101
Other (Non-Staff) Costs	2,733	2,609
Total Costs	7,084	6,710
Operating Income	(6,958)	(6,342)
Net Operating Cost	126	368

Table 4: Costs by Objective for the year ended 31 March 2011	2010/11 (£000s)			2009/10 (£000s)		
	Gross	Income	Net	Gross	Income	Net
Objective A To promote competition in the generation and supply of Electricity and to protect the interests of electricity consumers with regard to price and quality of service	3,720	(3,671)	49	3,119	(2,973)	146
Objective B To promote the development and maintenance of an efficient, economic and coordinated gas industry and to protect the interests of gas consumers with regard to price and quality of service	1,746	(1,705)	41	1,572	(1,469)	103
Objective C To protect the interests of water and sewerage consumers with regard to price and quality of service, where appropriate, by facilitating competition in the supply of water and the provision of sewerage services.	1,618	(1,582)	36	2,019	(1,900)	119
Total	7,084	(6,958)	126	6,710	(6,342)	368

Appendix 3 - List of Abbreviations

AIR	Annual Information Return
CAG	Common Arrangements for Gas
CCGT	Combined Cycle Gas Turbine
CCL	Climate Change Levy
CCNI	Consumer Council Northern Ireland
CER	Commission for Energy Regulation
CESG	Communications-Electronics Security Group
CHP	Combined Heat and Power
CIPD	Chartered Institute of Personnel and Development
CPD	Central Procurement Directorate
CPM	Capacity Payment Mechanism
DAO	Dear Accounting Officer
DECC	Department of Energy and Climate Change
DETI	Department of Enterprise, Trade and Investment
DFP	Department Finance and Personnel
DRD	Department for Regional Development
DSV	Demand Side Vision
ESB	Electricity Supply Board
ESBIE	ESB Independent Energy
ESOS	Enduring Solutions Options Study
FWP	Forward Work Plan
GDS	Grid Development Strategy
GMOG	Gas Market Opening Group
GSS	Guaranteed Standards of Service
GTUoS	Generator Transmission Use of System
GUAs	Generating Unit Agreements
I and C	Industrial and Commercial
IFRS	International Financial Reporting Standards
IME3	Internal Market in Energy 3 - Third European Package of Directives and Regulations on market liberalisation in energy

LECs	Levy Exemption Certificates
MMU	Market Monitoring Unit
MoU	Memorandum of Understanding
NIAO	Northern Ireland Audit Office
NIE T + D	Northern Ireland Electricity Transmission and Distribution
NIEES	Northern Ireland Electricity Energy Supply
NIRO	Northern Ireland Renewable Obligation
NISEP	Northern Ireland Sustainable Energy Programme
OFMDFM	Office First Minister and Deputy First Minister
PAC	Public Accounts Committee
PNGL	Phoenix Natural Gas Limited
PPB	Power Procurement Business
PPP	Public Private Partnerships
PSL	Phoenix Supply Limited
PSO	Public Service Obligation
REGOs	Renewable Energy Guarantees of Origin system
RMADS	Risk Management Accreditation and Document Set
ROCs	Renewable Obligation Certificates
RP5	Regulatory Period 5
SAP	Social Action Plan
SEF	Strategic Energy Framework
SEM	Single Electricity Market
SEMC	Single Electricity Market Committee
SEMO	Single Electricity Market Operator
SIG	Supplier Interface Group
SMP	Supplier Meter Point
SONI	System Operator Northern Ireland
TLAFs	Transmission Loss Adjustment Factors
TSC	Trading and Settlement Code



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