



# Annual Report 2012-13



Words that are in **green bold** are defined in the glossary.

# Annual Report 2012-13

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

The Utility Regulator (UR) 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 (1) of the Energy (Northern Ireland) Order 2003 by the Department of Enterprise, Trade and Investment.

Under Article 6A of the Energy (NI) Order 2003 (as amended) the UR is obliged to prepare an annual report in relation to the activities it has carried out in the preceding 12 months in its capacity as a designated regulatory authority for Northern Ireland. This report shall include a general survey taken and steps achieved by the UR in the performance of its functions under Article 37 of the Electricity Directive 2009/72/EC and Article 41 of the Gas Directive 2009/73/EC. Information in this report is intended to fulfil the Article 6A obligation and that will be sent to the European Commission.



**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



**This is my first annual report as chairman. It has been an eventful year for the Utility Regulator as is set out in this report.**

Since my appointment, in July 2012, I have been struck by the dedication and commitment of my board colleagues and our staff to the demanding role we have protecting the interests of Northern Ireland's energy and water consumers. Our role is always something of a balancing act with the challenge of addressing both short and long-term issues. We must strike a balance which both protects today's consumers as well as supporting efficient and necessary investment by the regulated enterprises, that is in the interests of future generations of consumers.

Energy bills are significant for many consumers and water costs are a continuous draw on our taxes (both local and national). Our scrutiny of the regulated enterprises is vital to ensure they continue to deliver essential services but also do so economically and efficiently.

Of course protection of consumers is not just about costs and prices. We have also been in the vanguard of initiatives to promote better quality of services, and where possible, informed and easy choices of energy supplier for consumers. Benchmarking utilities against their peers both within the UK and Europe provides both us and the utilities with information to test their effectiveness and efficiency.

Network utilities require a high level of skills in asset management to ensure their networks

are operated and maintained economically and efficiently for both current and future generations. My experience has convinced me that excellence in asset management is the essential enabler for long-term success in a network utility. As with their peers in the UK there is considerable scope for improvements in this area in the enterprises that we regulate.

We are working with Department of Enterprise, Trade and Investment (DETI) on the potential electricity security of supply issues we all might face in a few years time if the issues cannot be addressed in the interim. We are clear that it is important for consumers that the work on the North-South interconnector is progressed urgently.

Network utilities need to be able to finance their businesses on good terms. We have engaged constructively with the financial community to both improve their understanding of our market and understand their views on investing in our utilities. We are convinced that there is a positive investment climate for supporting the development of utility infrastructure in Northern Ireland. We will continue to play our part by supporting well-evidenced, prudent investment by the utilities that adds value to the infrastructure in Northern Ireland. Since 2006 we have facilitated over £5 billion of investment in utility infrastructure and will continue to do so (a recent example is our approval of significant investment in the electricity grid to facilitate renewable generation).

Finally, during the last year we said goodbye to four board members who all completed their

second term of appointment – my predecessor, Peter Matthews, Clive Elphick, Philip Johnson and Jim Oatridge. I would like to thank them for their considerable contribution to the development of the Utility Regulator since the organisation came into being in 2007.

**Bill Emery**  
**Chairman**



## 2 Chief Executive's report



**Utility regulation never stands still. During 2012-13 we witnessed continuous evolution and improvements across all three of our regulated industries.**

In electricity, we continued to move away from the old Northern Irish 'single buyer' model of the past, towards a European regionally-integrated model of the future. We cancelled another five of the old generation contracts and published our high-level plan to evolve the Single Electricity Market (SEM) on the island of Ireland to a regional market by 2016.

We also evolved towards a more sustainable fuel mix, and the target of 40% of all electricity to be produced by renewables by 2020, by approving over £30 million of network investments. This is part of an investment programme which is forecast to result in 27% of our electricity consumption coming from renewables. We also began work on developing offshore renewables with our first consultation on connection policy.

In electricity retail, an IT project was completed to allow for full consumer switching. There was a 60% increase in the amount of switching by domestic consumers between 2011 and 2012. We also saw a price decrease of 14.1% from the dominant supplier, Power NI, and this was quickly matched by other competing suppliers. Alongside this improved choice and competition, we introduced enhanced consumer protection measures, including: treatment of bad debt, marketing codes, notice periods for price changes and a minimum time to switch.

For electricity networks, the SEM Committee

submitted a preliminary decision on NIE Transmission and Distribution's (NIE T&D) 'unbundling' application. The European Commission (EC) subsequently published its decision on this application. Consequently this means the future development of network will be planned by the System Operator of Northern Ireland (SONI) rather than by NIE T&D. NIE T&D did not however accept our price control determination for the next five-year period and this matter will now be determined by the Competition Commission (CC).

Good regulation should also be about providing feedback to inform future policy. In 2012-13 we published our first electricity retail price comparison report which compared prices across Europe. While domestic prices were around the European average (in 2011), prices were at the top end for our larger industrial and commercial consumers. We are now working with the Department of Enterprise Trade and Investment (DETI) and other stakeholders to try to better understand the drivers for these comparisons and to inform future policy direction.

A report from the network operator, SONI, also indicated that security of supply margins could be tight by 2016. This is caused by the Moyle interconnector being at half capacity due to a technical fault, delays to the second North-South interconnector and the possible closure of some generation capacity in Northern Ireland. Again, we are now working closely with DETI on this issue and are considering the remedial options.

We have also seen continuous improvement in

our regulation of the water industry. During the first regulatory price control (PC10) NI Water improved its overall performance assessment score (i.e. the services to consumers) from a score of 131 to 184 and delivered a 6.5% annual reduction in operating costs. NI Water has also this year accepted the PC13 price control (which spans the 2013-15 period). PC13 requires the company to further improve its overall performance score to 215 and continue a 5% annual reduction in operating costs. This will result in charges falling by an overall average of 6% below inflation in both 2013-14 and 2014-15. We continue to monitor NI Water's progress closely and will publish the annual Cost and Performance Report for 2013-14 by the end of this year.

We have also commenced a more strategic six-year price control for NI Water spanning from 2015 to 2021. The hybrid model, being both a government owned company and a non-departmental public body, remains challenging but with the co-operation of all stakeholders is working for consumers.

There were also further developments in the regulation of the gas industry. Our referral of the Phoenix Natural Gas Limited (PNGL) price control to the CC resulted in consumers being £19.2 million better off than had we just accepted PNGL's proposals. While the issues were unique to the history of the PNGL business, it was important for all stakeholders, and for the continued development of the industry, that these issues were identified.

We also approved further plans to extend the gas network in the firmus energy licenced area

and we issued our first gas storage licence for a facility in Islandmagee. Following a decision by the Northern Ireland Executive to grant a subvention of £32.5 million for the 'Gas to the West' project, we consulted on the granting of a licence for this development.

In the gas retail market we witnessed another 32,000 consumers switch supplier in the Greater Belfast area during 2012-13. Unfortunately, due to increases in wholesale prices, Airtricity Gas Supply NI had to announce an increase in tariffs of 8.7% from 1 April 2013.

2012-13 was definitely another year of continuous change and improvement at the Utility Regulator. I wish to record my thanks to all our staff for their hard work and dedication, and to our board and stakeholders for their continued support. In particular I wish to thank our board members who moved on during the year: Peter Matthews, Clive Elphick, Jim Oatridge and Philip Johnson. We also welcomed Bill Emery as our new chairman.

The work of utility regulation never stops. Its central purpose is to protect consumers, both today and tomorrow. There will always be new challenges and improvements that can be made. As I step down after four very enjoyable and fulfilling years, I wish the organisation well. I will look on with interest as the organisation enters a new phase of development with its next corporate strategy that is due to take effect from 1 April 2014.

**Shane Lynch**  
Chief Executive

## 3 Our year at a glance

### April 2012

Our proposals for the NIE Transmission and Distribution (NIE T&D) price control were published.

We announced our decision to remove the subsidy for electricity connection costs. The removal of the subsidy has reduced the costs paid by all electricity consumers and ensures that full costs are paid for by the parties benefiting from the connection.

Our announcement cancelling five of the remaining seven power contracts is estimated to save consumers around £25 million over the next 10 years.

### May 2012

We commenced a consultation on regulatory and process issues associated with extending the gas network to the west of Northern Ireland.

A paper setting out our approach to energy supply competition was published.

### June 2012

We hosted a workshop on extending the gas network to the west of Northern Ireland.

We welcomed the appointment of Bill Emery as our new chairman.

### July 2012

An important step was reached in developing a gas storage facility at Islandmagee when we published our decision on the third party access regime.

We published our first energy regulatory letter as a means of enhancing our communications with industry.

### August 2012

The Competition Commission (CC) published its provisional determination on the Phoenix Natural Gas Ltd (PNGL) price control.

Power NI announced a 14.1% decrease in electricity bills from 1 October 2012.

We published a detailed report on NI Water's Scheme of Charges for 2012-13.

### September 2012

We announced the implementation of a series of consumer protection measures arising from the European Union's (EU) IME3 directives.

We published our proposals for the NI Water price control (PC13).

### October 2012

We welcomed the award of development rights for offshore renewable projects and planning approval for the gas storage facility at Islandmagee.

Our decisions on the NIE T&D price control were published.

### November 2012

Our fourth energy retail annual report, outlining the further development of the retail electricity and gas markets in Northern Ireland, was published.

NIE T&D rejected our price control determination (RP5).

We approved additional development plans for firmus energy (distribution) Ltd for the North Antrim area.

We published our approach document for NI Water's price control (PC15), spanning the period 2015-21.

### December 2012

Our Cost and Performance Report showed that NI Water was making good progress towards meeting performance targets.

The CC published its final determination on the PNGL price control.

We published our price control determination for NI Water (PC13).

We launched a review of our consultation practice.

### January 2013

We welcomed the Northern Ireland Executive's decision to part fund new gas transmission pipelines to main towns in the west of Northern Ireland, with a subvention of £32.5 million.

We approved the extension of firmus energy (distribution) Ltd's natural gas network to the South Armagh area.

### February 2013

NI Water accepted our price control determination (PC13).

Airtricity Gas Supply NI announced that it was increasing gas bills in the Greater Belfast area by 8.7% from 1 April 2013.

The **Single Electricity Market** (SEM) Committee issued a preliminary decision to the European Commission (EC) regarding the certification of Transmission System Operator (TSO) arrangements on the island of Ireland.

We approved over £30 million of investment by NIE T&D to facilitate renewable generation.

The SEM Committee published a paper outlining a detailed path to implementing the Target Model that is central to the integration of European energy markets.

We published our approach to asset maintenance for the NI Water (PC15) price control.

### March 2013

We launched a consultation seeking views on the methodology to be used to connect offshore generators that have been granted development rights by the Crown Estate.

We announced our approval of NI Water's Scheme of Charges which will lead to an average reduction of 2.7% for non-domestic consumers.

We published for the first time a report outlining electricity price comparisons across the EU.

## 4 Electricity

### At a glance

- Our NIE T&D price control determination would have led to lower tariffs for consumers compared to the company's proposals.
- We have advanced arrangements to certify TSOs to comply with EU market liberalisation measures.
- We have set out a high level plan to ensure that Northern Ireland is able to comply with the requirements of European electricity market integration.
- Our cancellation of power generation contracts will save consumers £25 million over the next 10 years.
- We approved a £30 million investment package in renewables that will increase the amount of renewable generation in the north and west of Northern Ireland.



## 4 Electricity

The development of a European regional electricity market is an important context for our work. Enhancing and improving the operation of the SEM on the island of Ireland is also key. Measures arising out of the European Union's Third Internal Energy Market Package (IME3) were advanced to support the further liberalisation of electricity market. The challenge of developing the network and accommodating renewable investment was also a key feature of the past year.

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

NIE T&D is the owner of the transmission and distribution electricity network in Northern Ireland.

As NIE T&D is a monopoly business, we approve the amount of revenue the company can recover from consumers through network charges via a price control process.

We published our price control determination for the period 1 January 2013 - 30 September 2017 (called RP5) on 23 October 2012. Our determination followed a public consultation on our proposals, which were published in April 2012. A separate public consultation was also conducted on an element of the final price control, relating to NIE T&D's **capitalisation practice**. The final determination included a decision on NIE T&D's capitalisation practice.

Key aspects of the determination included: a **capital expenditure** allowance of £396 million and special arrangements for approving additional capital expenditure to accommodate the integration of renewable generation and further interconnection; an **operating expenditure** allowance of £271 million; a pension cost allowance of £58 million over

the price control period; an allowed **weighted average cost of capital** (WACC) of 4.55% (**vanilla, real**); and an adjustment to NIE T&D's **regulatory asset base** of £32 million to reflect a previous categorisation of capital expenditure as operational expenditure.

Our determination would have led to lower tariffs for consumers compared to NIE T&D's proposals. For example, assuming investment in renewables and further interconnection is included, our determination shows that network charges would increase by around £11,000 or 9% per year for **large industrial consumers**. Under NIE T&D's proposals, bills for large industrial consumers would increase by around £32,000 or 26% per year.

NIE T&D rejected our determination in November 2012 and preparations were being advanced for a reference to the CC.

We also completed a price control for Power NI's Power Procurement Business (PPB) in April 2012. The key price control decisions related to the structure and form of the PPB price control, the duration of the price control and incentive and depreciation arrangements.

Licence modifications to give effect to the



System Operator of Northern Ireland (SONI) price control were also published in April 2012.

#### **Promoting market opening and competition**

The SEM continues to deliver benefits to consumers. The SEM ensures that the price of electricity charged to consumers is reflective of the costs incurred by the generators to actually produce the electricity. Further development of new generation on the island of Ireland has increased investment and competition in the wholesale market.

A medium-term review of the **Capacity Payment Mechanism** (CPM) was completed in March 2012. The review was aimed at incentivising the availability of both existing generation and new investment in capacity when it is required. The decision for the **capacity value** for 2013 was published in August 2012. Further to this, the SEM

**Our price control determination would have led to lower tariffs for consumers compared to NIE T&D's proposals**

Committee has indicated that no major changes to the CPM are proposed in the medium-term in light of the **regional integration project**. Work has commenced on setting the CPM for 2014.

The Market Monitoring Unit (MMU), which is based at our offices, has continued to monitor the SEM over the past year. The MMU engaged

## Our cancellation of power generation contracts will save consumers around £25 million over the next 10 years

with generators and operators to monitor compliance with the market rules.

The EU's IME3 has continued to promote the liberalisation of the energy market across the EU. IME3 requires the separation of the transmission network from generation and supply (this is called unbundling). The unbundling requirements were transposed into Northern Ireland law by the Gas and Electricity (Internal Markets) Regulations (NI) 2011. This amended the Electricity (NI) Order 1992 to make available a number of permitted models under the electricity directive to ensure separation of the transmission network from generation and supply.

We are required to certify transmission system operators as being in compliance with the full ownership unbundling requirements or one of the alternative unbundling models set out in the Electricity (NI) Order as amended.

Applications for certification have been received from NIE T&D and Electricity Supply Board (ESB - on behalf of Eirgrid). The regulatory authorities (the Commission for Energy Regulation – CER and us) evaluated these applications and issued a preliminary decision to the EC in February 2013. The preliminary decision recommended qualified approval for the current TSO arrangements on the island of Ireland. The EC has two months to consider its decision on the applications. We are also considering an application for certification from Moyle Interconnector Limited.

The cost of power generation is one of the largest elements of consumer electricity bills.

In April 2012 we announced the cancellation of five of the remaining seven power contracts between PPB and generators (called **Generating Unit Agreements – GUAs**). This is estimated to save consumers around £25 million over the next 10 years. The remaining GUAs are forecast to be a benefit to consumers and will be kept under review.

### Co-operation at a European level – regional integration

The EC has established the deadline of 2014 for the completion of the internal electricity market. The vision behind the greater regional integration of the electricity market is called the **Target Model**.

Further progress has been made to ensure that our electricity market is compatible with the European Target Model.

The SEM will require significant modifications to implement the Target Model. The magnitude of change required for the SEM to achieve this is considerably greater than most other markets in Europe. This is due to its centralised, gross mandatory pool design which differs in a number of key respects from the prevailing market design in most other European Member States.

The first key deliverable is the implementation of cross border electricity trading in all European electricity markets by 2014. For the island of Ireland this will be 2016 (given the greater changes required to the market). This will be a legal requirement on Member States.

Following a consultation on implementing the





Target Model in the SEM, the SEM Committee published a decision paper on next steps in February 2013. This paper outlined a detailed path to implementing the Target Model.

The next stage in the project is a consultation and subsequent decision on the proposed **High Level Design** which will be progressed throughout 2013-14.

**Taking steps to address security of supply and promote sustainability**

We recognise that the issues of security of supply and sustainability are interconnected.

Achieving diversity in the energy generation mix (including a greater contribution from renewable sources) is an important factor for addressing security of supply concerns.

While security of supply is always a key area of focus for us, several factors have combined to intensify security of supply risks for Northern Ireland in the medium-term.

Given that we are an isolated island electricity system, interconnection and security of supply are intrinsically linked. The delay in delivering the planned second North-South interconnector

**We approved £30 million of investment to increase the amount on renewable generation in the north and west of Northern Ireland**



compounded with a fault on the Moyle interconnector mean that we have lost important capacity.

It is our view that delivery of the second North-South interconnector and the restoration of the Moyle interconnector to full capacity, as early as possible, are crucial.

The EU Emissions Directive, which takes effect from 2016, will result in the decommissioning of some key generation capacity at Ballylumford and will place restrictions in generation at the Kilroot plant.

The restoration and introduction of significant interconnector capacity is unlikely to be delivered in advance of 2017. With the removal of key generation capacity in 2016, a significant security of supply risk exists in this period. We have therefore initiated discussions with key stakeholders on this matter. A key objective of these discussions is around developing a range of suitable options which can be implemented to mitigate any security of supply risk before 2016.

There have been considerable developments in respect of sustainability over the past year.

## With the removal of significant generation capacity in 2016, we have initiated discussions with stakeholders to develop options for mitigating security of supply risks

The SEM Committee has been considering matters associated with the treatment of wind in the SEM since 2008. In April 2012, the SEM Committee commenced a consultation on **curtailment** of wind in the SEM. A final decision was published in March 2013, whereby, in the event of a **tie-break**, windfarms will be treated on a pro-rata basis. Additionally, from 1 January 2018, all forms of financial compensation for curtailment will cease.

In order to address the impacts that increasingly high levels of wind place on the electricity system, the TSOs are progressing with the **Delivering a Secure and Sustainable Electricity System** (DS3) programme. It is expected that this programme, which is being progressed on behalf of the SEM, will be substantially in place by 2018.

The objective of DS3 is to facilitate increased levels of renewables and effectively decrease the levels of curtailment.

A key part of DS3 is a system services review. This is to ensure adequate system services (also called **ancillary services**) are available to meet electricity system needs over the coming years - as levels of renewable penetration increase.

Curtailment and increased levels of renewable penetration will also be a major factor in the implementation of the Target Model.

Additionally, we approved a significant investment package to facilitate renewable generation. In December 2012 we announced

our intention to approve, subject to consultation, investment to facilitate renewable generation. The investment, which is part of NIE T&D's **Medium-Term Plan**, will increase the amount of renewable generation in the north and west of Northern Ireland that can access the transmission network. The overall investment is estimated to provide 27% of electricity demand in 2020. Following consultation, we announced our approval of over £30 million of investment, to facilitate renewable generation in February 2013.

We also launched the findings from a smart metering pilot in Northern Ireland which we commissioned. This will provide the basis for the further development of smart metering in Northern Ireland.

Finally, we have made progress on offshore renewables during the past year. We published a consultation document in March 2013 seeking views on the methodology to be used to connect offshore generators that have been granted development rights by the Crown Estate.

### Monitoring network security and reliability, and promoting service standards

We continue to monitor network security and reliability and review reports received from NIE T&D relating to service interruptions. Indeed, Northern Ireland was subject to significant disruption to power supply during March 2013 arising from adverse weather conditions. Our objective is to make sure that the network performance ensures that investment is meeting expectations.

Moreover, we monitor on a quarterly basis,

the quality of service provided by NIE T&D to ensure compliance with **Guaranteed Standards of Service** (GSS).

Finally, we have sought to promote consistency and transparency in respect of access to the network. We published a decision paper outlining electricity connection policy to Northern Ireland's distribution system. The key decision was to remove the 40% subsidy in order to promote cost reflective charging. The removal of the subsidy will reduce the costs paid by all electricity consumers. It ensures that full costs are paid for by the parties benefiting from the connection.

### **Landbank**

Landbank is the portfolio of land used or held for generating purposes and is managed by NIE T&D under our direction. In addition to a programme of maintenance on the sites, we took further steps towards the development of a number of the main sites for generating purposes. A timetable for development will be published early in 2013-14.



## 5 Gas

### At a glance

- Consumers benefited by £19.2 million as a result of us not accepting PNL's price control proposals and referring the matter instead to the Competition Commission.
- Increased gas distribution costs was the main reason for an 8.7% tariff increase for gas consumers in the Greater Belfast area.
- Over 32,000 consumers in Greater Belfast have switched supplier.
- We granted the first gas storage licence for a facility and commenced the regulatory process to extend the natural gas network to the west of Northern Ireland.

## 5 Gas

The gas industry continues to grow, at a healthy rate, with over 14,000 new connections in the year and extensions approved to new areas. This steady growth moves the industry into a more mature phase. European legislation will require significant changes to transmission network codes to facilitate a more integrated European market.

### Protecting consumer interests through our scrutiny of tariffs

Our scrutiny of consumer bills is focused on making sure that the bills they pay reflect the cost of production.

This has led to a situation where domestic gas consumers in Greater Belfast enjoy among the lowest standard prices in the UK and Ireland. During the last year there has been a significant increase in the costs of using the PNGL distribution pipelines. A decision made by the CC increased distribution costs.

This increased distribution cost was one of the reasons for a request from Airtricity Gas Supply NI (formerly Phoenix Supply Ltd) to increase tariffs. We approved the company's submission to increase regulated tariffs after careful scrutiny (we disallowed a specific item relating to interest on over-recovered revenue which lessened the extent of the increase). Overall, this resulted in an increase of 8.7% from April 2013.

We recognised the impact that this increase would have on household budgets. We made a commitment that we would act to make sure that any decrease in wholesale energy costs would be reflected in consumer bills as soon as possible.

### Promoting efficiency and monitoring regulated company investment plans

A major part of the work of our gas team during the past year was carrying out price controls.

We published our PNGL price control decision paper in January 2012. The company subsequently rejected our determination and the matter was referred to the CC.

The CC published its determination in November 2012. The key aspects of its determination related to the impact of two issues on PNGL's **total regulatory value** (TRV): (1) **historic outperformance** and (2) **deferred capex**. While the CC reduced the TRV in respect of deferred capex, it decided that historic outperformance should be retained within PNGL's TRV for 2012 and 2013. The CC's decision meant that all consumers would pay higher gas bills (because of the higher distribution costs component of the tariff). Against this, consumers benefitted by £19.2 million as a result of us not accepting PNGL's price control proposals and instead referring the matter to the CC.

We have already commenced work on the next gas distribution network price control (**GD14**) which covers both firmus energy and PNGL and will be implemented from 2014. Following



stakeholder engagement, we plan to make a determination by the end of 2013.

Finally, we completed our price control for BGE(NI), the gas transmission business, in October 2012, following several consultations. The final price control reduced BGE(NI)'s proposals by £41 million over five years. However the level of allowed costs remained in line with historic allowances.

### **Promoting the development of the gas industry**

During 2012 we have worked on a number of network extensions which have brought the benefits of natural gas to new areas. The approval of extensions to a number of areas include: Bushmills, Bessbrook and Camlough.

**Consumers benefited by £19.2 million as a result of us not accepting PNGL's price control proposals and instead referring the matter to the Competition Commission**





The overall additional investment requested was over £6 million.

In addition, the number of new connections made by firmus energy and PNGL in the year significantly outperformed forecasts reaching over 14,000. This high ongoing investment will bring real economic and environmental benefits to many more consumers.

### **Promoting market opening and competition**

We continue to promote competition in the natural gas market.

The Gas Market Opening Group (GMOG) is a forum established by us to support gas market opening. GMOG enables us to engage with key stakeholders (e.g. license holders) on market development issues.

During the year we finalised the opening of the gas market for large industrial and commercial (I&C) consumers across the **Ten Towns** area. This involved putting a **network code** in place and updating licenses and supplier agreements

to ensure the smooth introduction of competition to the area. We are pleased that consumers are now switching for the first time. The Ten Towns market will be fully opened from 2015.

Consumer switching in the Greater Belfast area has continued successfully with over 32,000 consumers now having switched. Additionally, newly connected gas consumers in Greater Belfast can now select their preferred supplier who will supply them after the connection has been made and commissioned.

As well as market opening, we continue to engage with the Department of Enterprise, Trade and Investment (DETI) on further extending the gas network. We welcomed the Northern Ireland Executive's decision to approve a subvention for gas to the west of Northern Ireland. We published a consultation document in April 2013 seeking views on the options regarding the process for granting a licence to convey gas to those areas. We will continue to engage with all stakeholders in order to deliver final licences in 2014.



## Over 32,000 consumers in Greater Belfast have switched supplier. Switching has also occurred for the first time in the Ten Towns area

During the past year, applications for certification have been received from Belfast Gas Transmission Ltd (BGTL) and Premier Transmission Ltd (PTL). We have evaluated these applications and issued a preliminary decision to the EC in March 2013. The preliminary decision recommended approval of the fully unbundled model for both. The EC has two months to consider its opinion on the applications. We are also considering an application for certification from BGE(UK).

### Cross border co-operation

The **Common Arrangements for Gas** (CAG) project is a joint project with the CER. It seeks to harmonise the operation of the gas transmission assets linking south-west Scotland, Isle of Man, Northern Ireland and the Republic of Ireland.

To address CAG issues, we have focused on a study on the technical issue of the **single balancing zone**. This has been largely completed. In addition, CER has commissioned a cost benefit analysis for CAG and we await the outcome of this.

As a consequence of potential non-compliance issues with the Gas Regulation in the EU Second Package (IME2), we put together a package of measures to deliver full compliance. This work was carried out in conjunction with CER. The network codes required to successfully deliver new products, in line with the regulation, were approved in June 2012.

Subsequently, we have consulted on measures to ensure compliance with IME3, which will involve significant numbers of new European

network codes in the coming years. This work will continue in 2013-14.

### Consumer protection measures

We made significant progress in implementing IME3 requirements, which have an emphasis on consumer protection measures. A set of licence modifications were put in place to significantly increase the level of consumer protection. This required both the gas distribution and supply companies to put in place codes of practice which set out how they will deliver the detailed IME3 requirements.

Gas distribution companies' codes of practice on marketing and provision of information to consumers were finalised in February 2013. Supply companies are also required to have codes of practice on marketing, complaints handling, energy efficiency, payment of bills, vulnerable consumers and services for pay-as-you-go consumers. The codes of practice set out what the companies can and can't do and facilitate monitoring of their activities. These should be finalised in the coming months.

### Security of supply

We consulted upon, and granted, the first gas storage license in October 2012 to Islandmagee Storage Ltd (IMSL). We also previously consulted upon and approved the third party access regime for the IMSL facility in line with European legislation.

The Islandmagee storage facility has the potential to provide 500 **mscm** of gas storage in Northern Ireland which would provide approximately 17 days of supply to the island of Ireland on a winter peak day. The final decision



to invest in storage is a commercial one for the investors and we will continue to work to ensure that a transparent regulatory framework is in place to facilitate investment.

In conjunction with CER, we also published the 2012 Joint Gas Capacity Statement which assesses the ability of the all-island transmission system to meet future demands on the network. We also continue to work with government and industry to meet the requirements of the EU Regulation 994/2012 on security of gas supply.

**We granted the first gas storage license for a facility that could potentially provide around 17 days of supply to the island of Ireland**

## 6 Retail and social

### At a glance

- Power NI announced a 14.1% decrease in electricity tariffs from 1 October 2012.
- The introduction of the Enduring Solution system provided consumers with unlimited capacity to switch suppliers.
- We delivered enhanced consumer protection measures for electricity and gas consumers in Northern Ireland through our work to implement IME3.
- We published for the first time a report outlining electricity price comparisons across the EU.



## 6 Retail and social

Domestic competition in the electricity and gas retail markets is immature but continues to develop. Tariff volatility remains an issue as suppliers respond to changing international fuel prices. Active regulation is required to properly protect consumers. We have strengthened consumer protection measures in response to new EU legislation, and we have increased our role in retail market monitoring.

### Protecting consumer interests through our scrutiny of tariffs

One of our statutory duties is to ensure that consumers pay a price for electricity that reflects the actual costs incurred by the supplier.

Power NI is the dominant supplier of domestic electricity in Northern Ireland and we make sure its costs are at an appropriate and efficient level. In 2012 we completed our annual review of the Power NI regulated electricity tariff.

This process involved engaging with other key stakeholders such as DETI and the Consumer Council for Northern Ireland (CCNI). We scrutinised Power NI's costs and the company announced a tariff decrease of 14.1% in October 2012. Prices for domestic electricity consumers in Northern Ireland were therefore below the Great Britain (GB) average for the first time since 2007. We subsequently published a tariff briefing paper which transparently highlighted changes to each element that makes up the tariff.

We review the Power NI tariff on an annual basis but conduct an in-year review if market conditions change significantly. Given the recent volatility in wholesale electricity prices, which are a key driver of changes to consumer bills, we will be conducting such a review this year.

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

Power NI is the only electricity supply company that is regulated in Northern Ireland. The company currently must offer regulated tariffs to all consumers that use less than 150MWh per year. Consumers who use more than 150MWh per year are part of a fully competitive market, outside the scope of regulated tariffs.

We carry out periodic price control reviews for Power NI to promote efficiency. This involves Power NI submitting proposed running costs which we scrutinise thoroughly. We then set the **margin** for Power NI (the level of profit that can be made from regulated consumers).

The current price control (that was set in October 2011) covers the period 2012-14. We have begun the process for setting the next price control which begins in April 2014. We published an 'Approach' document in February 2013. This sets out how we will conduct the price control. We intend to publish our initial proposals in July 2013. This will include proposals on the scope and consumer coverage of the price control. These proposals will be subject to public consultation.

### Cross border co-operation with other regulatory authorities – harmonising retail markets

We also protect consumers by promoting competition, as appropriate.

In 2012-13 we worked with CER to complete the harmonisation of the **market messaging infrastructure** for retail markets on the island of Ireland. The migration to a single harmonised market schema has enabled suppliers to interface with market operators in both jurisdictions through a single, shared gateway. This has also increased the efficiency of how suppliers work with the market.

The schema is governed by the **Retail Markets Coordination Steering Group** (ReMCoSG). The ReMCoSG has been set-up with all associated administrative arrangements to support the ongoing operation of the single all-island schema.

The benefits of harmonisation include reduced costs for suppliers in both jurisdictions and ease of entry into the market for those new suppliers that intend to operate in both jurisdictions.

### Promoting market opening and competition

We have worked on several projects during the past year aimed at promoting the benefits of a competitive energy market. The **Enduring Solution system** has delivered unlimited capacity for switching by domestic consumers between electricity suppliers. The system went live in May 2012, as planned.

A fully functioning and open domestic electricity supply market has been created through the



installation of market systems, processes and supporting market documentation. This has ensured that market entry is possible for all prospective suppliers and that the market is fully contestable.

In addition, a number of the measures implemented through IME3 (as discussed below) have helped to promote competition in both the electricity and gas supply markets.

### Consumer protection measures – IME3

The Gas & Electricity (Internal Markets) Regulations were published by DETI in 2011.



## The Enduring Solution system provides unlimited switching between electricity suppliers for domestic consumers

These regulations implement the majority of the requirements set out in the IME3 Directives.

Consumer protection is a key focus of the regulations. We sought to implement the consumer protection elements via licence condition modifications, new licence conditions and codes of practice. In an effort to prevent many of the negative consumer issues that had occurred in GB, consumer protection rules were enhanced for Northern Ireland.

In March 2012, we published a second stage consultation on proposed licence modifications. Ministerial approval for the licence modifications was granted in August 2012 and the licence modifications came into effect on 13 September 2012.

The licence modifications and associated follow-up work have delivered the following enhanced protection measures for electricity consumers in Northern Ireland:

- increased transparency of the terms and conditions in electricity supply contracts, including the requirement for consumers to be given 21 days notice if their tariff is to change or the terms of their contract are to be changed;
- increased provision of information to consumers, including a new consumer checklist, available to all consumers that provides clear and practical information on their rights in relation to the energy sector;
- increased provision of information to the regulator, including the obligation on suppliers to detail their performance in relation to the provision of services to consumers (e.g. number of complaints);
- increased protection in terms of supplier behaviour in the marketplace, including enhanced provisions in the suppliers' codes of practice. The areas covered by the codes of practice include consumers having difficulty paying bills and complaint handling procedures. Interim codes of practice covering these areas have been approved. In addition, a mandatory supplier marketing code of practice is currently being consulted on. Further work is underway to develop a set of minimum standards which will ensure consistency and transparency across suppliers' codes of practice; and
- increased protection also includes the requirement for suppliers to ensure that consumers receive a 10 day cooling off period.

### Monitoring the retail market

Another of our statutory duties is to constantly review the development of the retail market. This duty has been further enhanced by IME3 which requires us (and all **National Regulatory Authorities**) to monitor how the competitive market is functioning. We monitor the development of competition to ensure that it works for consumers.



Our retail market monitoring involves the collection, analysis and publication of some key energy supply information. This includes supplier market share data, switching information and domestic and non-domestic prices and their comparisons to other EU countries. This information helps

us to understand how supply competition is progressing and the impact it is having on consumer switching attitudes. We also use the information to help us understand the impact of our regulatory decisions. Our market monitoring also enables us to comply with IME3 requirements.

**Prices for domestic electricity consumers and smaller business consumers were around the EU average. Electricity prices for larger industrial consumers were among the highest in Europe**

In October 2012 we published our latest annual **Energy Retail Report**<sup>1</sup>. Additionally, we have continued to publish the **Quarterly Transparency Reports**<sup>2</sup> which include key information on the retail markets as mentioned above. The published data enables interested stakeholders to understand the activity in our energy markets.

In the past year our monitoring of the non-domestic electricity market has been further developed. In March 2012 we published an information paper on non-domestic electricity prices<sup>3</sup> in Northern Ireland. This paper provides previously unpublished details on average non-domestic electricity prices per consumption category and compares them with non-domestic electricity prices for EU-15.

The key findings showed that for domestic consumers, prices were around the EU average. For very small I&C consumers, electricity prices were also around the EU average (this group of consumers comprises around 70% of all non-domestic consumers in Northern Ireland). For the remaining 30% of I&C consumers electricity prices were among the highest in Europe.

**Enhanced consumer protection measures under IME3 include greater transparency on tariffs, clearer billing information and enhanced codes of practice**

We invited feedback from our stakeholders and plan to develop additional projects in this area in the coming year.

The ongoing review of the retail market has enabled us to develop a comprehensive dataset of retail market information. We use the dataset internally to understand the issues in the retail market but it is also used to address external information requests from stakeholders.

<sup>1</sup> [http://www.uregni.gov.uk/publications/view/utility\\_regulators\\_annual\\_energy\\_retail\\_reports/](http://www.uregni.gov.uk/publications/view/utility_regulators_annual_energy_retail_reports/)

<sup>2</sup> [http://www.uregni.gov.uk/publications/view/utility\\_regulator\\_publishes\\_retail\\_energy\\_market\\_monitoring\\_report/](http://www.uregni.gov.uk/publications/view/utility_regulator_publishes_retail_energy_market_monitoring_report/)

<sup>3</sup> [http://www.uregni.gov.uk/publications/information\\_paper\\_on\\_northern\\_ireland\\_electricity\\_prices\\_data\\_and\\_compariso](http://www.uregni.gov.uk/publications/information_paper_on_northern_ireland_electricity_prices_data_and_compariso) and [http://www.uregni.gov.uk/publications/electricity\\_pricing\\_paper\\_question\\_and\\_answer\\_document](http://www.uregni.gov.uk/publications/electricity_pricing_paper_question_and_answer_document)



## 7 Water

### At a glance

- We completed our PC13 price control review and this will lead to lower charges, more targeted investment and further operational efficiencies.
- We advanced our PC15 price control which will address a range of strategic issues over the 2015-21 period.
- Our approval of NI Water's scheme of charges will lead to an average reduction of 2.7% for non-domestic consumers.
- We monitored NI Water's delivery of the 43 short-term actions identified in our report on the freeze/thaw incident of 2010-11.

## 7 Water

NI Water continues to be classified as a non-departmental public body and a government owned company. While the current arrangements are not ideal, we have continued to work with stakeholders to ensure the optimal operation of regulatory arrangements. The company has steadily improved its operational performance, while at the same time reducing its operating costs. The Department for Regional Development's (DRD) Long-Term Water Strategy and our six-year PC15 price control provide an opportunity for a more strategic approach to water and sewerage services.

### Delivering lower costs and improved levels of performance for consumers - PC13

We completed our second price control for NI Water, called **PC13**. Our final determination was published in December 2012. Following a public consultation on a draft determination, NI Water accepted our final determination in February 2013.

Our final determination set out price limits for water and sewerage services for the two years 2013-15. Key features of our final determination were:

- lower charges for non-domestic consumers. Charges will fall by an overall average of 6% below inflation in each of the two years (2013-15);
- investment in water and sewerage assets - £324 million will be invested in prioritised and targeted areas to deliver specified infrastructure improvements;
- higher levels of service – an improvement in the 'overall performance assessment' (OPA) score, narrowing the gap between NI Water and the average water company in GB; and

- a more efficient company – delivering a further 5% per year operational efficiencies to reduce the benchmarked 38% operational efficiency gap to the UK frontier company.

More broadly, we continue to work with key stakeholders to ensure the most effective operation of the current governance and funding arrangements for NI Water. Our engagement with officials from DRD and the Department of Finance and Personnel (DFP) has been beneficial in seeking to further align the public expenditure and regulatory regimes. Licence modifications were agreed following our first price control in 2010 to recognise the dual status of operating within the public expenditure and regulatory price control regimes.

### Monitoring NI Water's performance

A key part of our work is to monitor NI Water's performance against agreed objectives and targets as defined for each price control. Our analysis is based on an objective assessment of an annual information submission by the company in response to regulatory reporting requirements.

In December 2012, we published a **Cost and**

**PC13 will deliver a 6% below inflation decrease in charges for non-domestic consumers, £324 million of targeted investment and a further 5% per year of operational efficiencies**

**Performance Report** reflecting our assessment of how NI Water performed during 2011-12. Our report shows that NI Water is continuing to develop as a regulated company while making good progress against its targets.

During 2011-12 and for the second year running, NI Water outperformed its operational efficiency target - set in **PC10**, while at the same time improving levels of service. It also invested £192 million to maintain its assets and improve quality and service standards while also providing additional capacity for growth. The company also performed well against key service and output measures, achieving its best performance to date in both drinking water

and wastewater quality. Its targets for reducing leakage and pollution incidents were also outperformed.

NI Water also continues to improve its efficiency position when compared with English and Welsh companies. However, for every £1 spent by the benchmarked company NI Water spends £1.62. This compares to £1.96 in 2007. We will continue to encourage NI Water to improve its efficiency and close the gap with companies in England and Wales.





## NI Water achieved its best performance on drinking water and wastewater quality, as well as exceeding targets for reducing leakage and pollution

### An opportunity to take a longer term strategic view - PC15

In October 2012 we began preparations for the third price control for NI Water, referred to as **PC15**. We published an overall approach document in November 2012 which set out our timetable for the price control. We liaised with key stakeholders, all of whom, were generally content with our approach and timeline.

In the PC15 price control we will set NI Water's price limits for a six-year period from 2015-2021. We will do so in a way which ensures that the company's operational and investment costs can be met and ministerial objectives delivered effectively and efficiently. Finally, we will aim to ensure that NI Water provides best value for money to consumers.

PC15 represents an opportunity for us to take a strategic view of NI Water's business over a six-year period. Our strategic view will be in the context of the needs of consumers, the environment and cost. Within our approach document we have highlighted key areas which are particularly important in light of the longer-term, more strategic nature of PC15, these are:

- **Consumer Engagement** – we have worked with NI Water and CCNI to inform the means and timing for eliciting consumers views and priorities to feed into and inform NI Water's Business Plan.
- **Supporting a sustainable water industry** – to complement the DRD's **Long-Term Water Strategy** and Social and Environmental Guidance, we expect NI Water to set out clearly its own longer-term strategy.

- **Targeting investment** – we will ask NI Water to develop further its asset management capabilities so that the 'right' level of long-term investment in key areas is justified and targeted.
- **Delivering efficiencies together with improved services** – a significant efficiency gap remains between NI Water and equivalent service providers in England, Wales and Scotland. We will continue to benchmark NI Water's performance and efficiency and will consider how the efficiency gap should be closed, given its hybrid status.
- **Information requirements** – we reduced the level of information we required from NI Water for PC13 and plan to carry this approval into PC15.
- **Working with principal stakeholders** – clear stakeholder roles and regulatory processes and good co-operation has enabled the hybrid model to deliver benefits for consumers. We will continue the working group structure set-up for our first price control, PC10.

Our strategic approach also complements DRD's Long-Term Water Strategy, working with other principal stakeholders.

### Ensuring non-domestic consumers are charged fairly

In Northern Ireland there are separate charging arrangements for non-domestic water and sewerage 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 the approval is to ensure charges are within the price limits determined by our price controls. We also seek to make sure there is no undue preference or undue discrimination by NI Water in setting charges between different consumer groups.

In August 2012 we published a detailed report on the Scheme of Charges 2012-13. This report described our approach to approving and assessing NI Water's charging scheme and formally set out the company's approved charges.

Following this, we commenced the process for setting the Scheme of Charges for the new charging year (2013-14). As well as assessing

information provided by NI Water, we engaged with other stakeholders, particularly CCNI.

After this engagement and scrutiny, to ensure charges aligned with limits set within our PC13 determination, we approved NI Water's charging proposals in March 2013.

#### **Monitoring the delivery of the freeze/thaw recovery plan**

During 2012-13, the monitoring arrangements into the freeze/thaw incident in December 2010 - January 2011 were revised.

This took into account the progress to date in delivery of the short-term actions and the extended timescale for the delivery of the remaining long-term actions. 42 of the short-term actions have been completed, the one remaining action has been well advanced with



procurement processes facilitating completion for December 2013.

The ongoing arrangements focus on half yearly checkpoint meetings and provision of regular updates to a principal stakeholder group who monitor delivery of capital projects.

**Our approval of NI Water's scheme of charges will lead to an average reduction of 2.7% for non-domestic consumers in 2013-14**



## 8 Energy efficiency and sustainability

### At a glance

- Just under £8 million of funding was provided to projects implementing energy efficiency measures - 80% of which targeted vulnerable consumers under the Northern Ireland Sustainable Energy Programme (NISEP).
- An additional 210 generation stations received accreditation to receive Renewable Obligation Certificates in 2011-12. 90% of these were micro generators.
- We audited 12 generating stations which claim Climate Change Levy exemption certificates.

## 8 Energy efficiency and sustainability

We continue to play our part in delivering Northern Ireland's Sustainable Development Strategy. We implement EU legislation in the form of energy efficiency, renewable energy and internal market directives, this also supports sustainable development. Locally, we have worked closely with DETI on the development of the Energy Bill. A key element of the Energy Bill is likely to be the greater weight given to the promotion of sustainability in our duties for both electricity and gas.

### Promoting sustainable energy for consumers – the Northern Ireland Sustainable Energy Programme

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

A total of £7.9 million of NISEP funding was spent in 2011-12. The 2011-12 schemes delivered approximately 707 GWh of energy saved and £72.4 million of gross consumer benefit (**Net Present Value** - NPV over the lifetime of the measures).

For the year 2012-13, a total of £8.3 million in NISEP funding was made available for schemes at the beginning of the year. Post-implementation reviews will verify the benefits from these schemes over the coming months.

Also during the year, we consulted upon and implemented a number of changes to the NISEP Framework Document for the year 2013-14. This is the document which sets out all of the rules and procedures in the programme. The changes were designed to improve procurement

processes and scheme reporting. We will continue to monitor schemes and will review the Framework Document to reflect experience on the performance of schemes.

### Work with DETI

During the year we also worked with DETI to provide information and support for their consultation on policy proposals for an Energy Bill for Northern Ireland. We also provided information to DETI regarding the European Energy Efficiency Directive and its implications for Northern Ireland electricity and gas consumers. We have also been working with DETI on **Electricity Market Reform** and will continue to do so.

### Supporting renewable development

We are committed, wherever appropriate, to playing our role in increasing the proportion of electricity generated from renewable sources in Northern Ireland in support of energy policy.

We have a statutory responsibility to administer 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.

Within the year 2011-12, 210 additional generating stations in Northern Ireland received ROC accreditation (over 90% of which were micro generators). More than 90% of ROCs issued in Northern Ireland went to on-shore wind generating stations.

### The Climate Change Levy Exemption Scheme

We continue to manage and administer the **Climate Change Levy Exemption scheme** (CCL), issuing **Levy Exemption Certificates** (LECs) to accredited generators in Northern Ireland and the Republic of Ireland. We audited a further 12 generators during the year, six from each jurisdiction.

The CCL is a tax on energy used by businesses. In relation to electricity, the tax requires suppliers to charge commercial consumers an extra £5.09 per MWh in 2012-13. Electricity produced from designated renewable and good quality **combined heat and power** (CHP) sources are exempt from the CCL.

The government announced its intention to withdraw the CCL exemption for electricity produced in a CHP station that is supplied by an electricity utility to an energy consumer. This exemption is called the 'CCL CHP indirect supplies exemption'. The removal of the exemption will take effect from 1 April 2013. This change does not affect the levy status of CHP electricity that is supplied directly from the station to the final consumer, including self-supplies. Nor does this change affect renewable electricity that is produced in a CHP.

### Table 1: NISEP in numbers

- Almost £7.9 million was spent on NISEP schemes overall.
- Total NPV lifetime energy savings were a substantial 707 GWh.
- 135,819 tonnes of lifetime carbon savings and £72.4 million NPV gross consumer benefit savings were achieved.
- £245,517 was earned in incentives for over-achievement on energy saving targets.

Renewable LECs will still be issued to accredited stations in relation to this type of generation. We will not issue LECs (CHP LECs) for electricity generated in CHP stations after 31 March 2013.

Overall, the scheme contributed to the promotion of renewable generation and good quality CHP generation in Northern Ireland.

### 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. This requirement derives from the EU's IME3 Directive. In addition, suppliers are required to provide information on the environmental impact of their electricity.

In November 2012 we provided suppliers with fuel mix calculations for the year 2011, in an easily comparable format. Consumers are now better able to understand and verify the environmental impact of their electricity consumption.



## 9 Efficient and effective regulator

### At a glance

- We achieved or partly achieved 87% of our Forward Work Plan (FWP) targets and accommodated unanticipated workstreams while optimising our limited resources.
- Our review of consultation practice will lead to a more clearly defined process, promote engagement and improve accessibility.
- Consumer research shows awareness of, and confidence in us, is at its highest level.
- We successfully migrated our Information Technology (IT) infrastructure to a supported and stable platform.
- We introduced regulatory letters as basis for providing further clarity to licensees.

## 9 Efficient and effective regulator

We continue to evolve as a regulatory body. Later in 2013 the Energy Bill is expected to become law and will introduce new regulatory obligations. The EU's IME3 Directives also address aspects of our regulatory practice. As our remit and workload continues to grow we will continue, as a public sector body, to constrain our budgetary requirements and optimise the use of existing resources.

### Making the best use of our resources

#### Our finances

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 can be obtained from the Stationery Office or from our website ([www.uregni.gov.uk](http://www.uregni.gov.uk)).

A commentary on our financial statement for the year ended 31 March 2013 is included at Appendix 1. Table 2 provides an overview of the key figures. Most of our costs are recouped from annual fees paid by electricity, gas and water licensees.

We are committed to the prompt payment of bills for goods and services received. During 2012-13 the standard payment was 95% of undisputed invoices within 10 days. We achieved this each month during the year, and reached a 100% standard during four specific months.

#### Developing our staff

We aim to be an employer of choice. Our staff group is professionally diverse and mostly directly recruited. We also have a small group of secondees from DETI and DFP.

Our Human Resource (HR) approach covers five key themes: recruitment and retention; pay and reward; organisation and people development; equal opportunities; and performance and talent management. It reflects our mission, vision and values; the corporate strategy; FWP; Northern Ireland, UK and European employment legislation; and best practice in HR.

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 2.77% (6.9 days per employee).

**Table 2: Overview of financial position**

<b>Expenditure</b>	<b>Actual (£000s)</b>
Operating costs (gross)	8,290
Income <sup>4</sup>	(8,308)
Operating costs (net)	(18)

<sup>4</sup> Includes income recovered from the buyout fund.

## Performing effectively as a regulator

### Reviewing our Corporate Strategy 2009-14

Our current corporate strategy is due to expire on 31 March 2014.

We have commenced the process for developing a new strategy. During the first part of 2013-14 we will be engaging with stakeholders as part of the process of developing a new strategy. Following this engagement, we will produce a draft corporate strategy and will publicly consult on this.

### Forward Work Plan 2012-13

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

Overall, we achieved or partially achieved 87% of the time-limited tasks listed to be completed within the 2012-13 year.

Appendix 2 sets out the FWP projects for 2012-13. We report on the status of each project (in terms of achievement). Additionally, we also comment on the outcome of each project (in terms of what has been achieved or, in some instances, why a project has not been completed).

### Reviewing how we consult

Legislation requires us to consult on specific functions. This includes consultation on the granting of, and modifications to, licences and our FWP.

As part of our mid-term review of our Corporate Strategy 2009-14, we committed to reviewing how we consult.

We produced a discussion paper setting out our view on how we might improve consultation practice for consultation. The consultation closed at the end of February 2012.

There was much support from respondents for many of the ideas we identified in the consultation discussion paper. We expect to set out our response to the consultation early in 2013-14. Overall, we will be enhancing our consultation practice to more clearly define the process, promote efforts to secure engagement from consultees and improve the accessibility of our publications.

## Corporate governance

### Governance and audit

DFP appoints the chairman and members of our board. Bill Emery was appointed as chairman on 1 July 2012 in succession to Peter Matthews. Clive Elphick, Philip Johnson and James Oatridge also completed their second terms of appointment at the end of September 2012. The other board members during 2012-13 were Richard Rodgers, Alan Rainey and William Cargo. The chief executive, Shane Lynch, is the organisation's accounting officer and an ex-officio member of the board.

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 CC 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



## **Our review of consultation practice will lead to a more clearly defined process, promote engagement and improve accessibility**

Northern Ireland Audit Office in respect of the 2012-13 accounts.

Our internal audit is outsourced to Capita Consulting (formerly Tribal Helm). Areas reviewed during the past year included bank and cash, budgetary control, business continuity, energy licence enforcement, fixed assets, IT, landbank, procurement, and risk. We again achieved a 'satisfactory' overall assurance rating.

### **Board and board sub-committees**

Our board formally met 11 times during 2012-13.

The board undertook a learning and engagement programme during 2012-13. This consisted of a planned series of visits to utility assets and meetings with a diverse range of

stakeholders. Board members and external guests also provided briefings on a range of topics.

The senior management team continued to meet weekly.

The audit and risk committee met four times. Its membership comprises of the following non-executive directors: James Oatridge (chair) until 30 September 2012 after which he was appointed as independent chair, Clive Elphick (until 30 September 2012) and Richard Rodgers. The chair of the board may also attend meetings. The committee is supported by members of the executive team attending by invitation. The Northern Ireland Audit Office and the Head of Internal Audit have standing invitations to attend meetings of the Committee.





The remuneration committee met twice. Its membership comprises of the following non-executive directors: Bill Cargo (chair), Philip Johnson (until 30 September 2012) and Alan Rainey. The chair of the board may also attend. We comply with the public sector pay remit guidelines.

During the past year Board Advisory Groups (BAGs) for water and energy (covering electricity and gas) met bi-monthly. From 1 January 2013 the BAGs were consolidated into one group – the Board Advisory Forum. Membership comprises non-executive directors (with relevant utility experience) and senior staff working in the utility directorates. They provide a vehicle for the office to benefit from the advice and guidance of non-executive directors as well as more detailed challenge/scrutiny on the key policy issues.

The SEM Committee meets monthly to take decisions in respect of the exercise of relevant functions of CER or us in relation to a SEM matter on behalf of each regulator. Northern Ireland's current SEM Committee members (as of 31 March 2013), appointed by DETI, are Shane Lynch, Alan Rainey and Bill Emery.

#### **Information technology and governance**

Our information management committee oversees governance arrangements for the provision of secure and efficient information storage and transfer. During the year, a project to move to a fully electronic data records management system was commenced.

We have successfully completed the migration of most IT services to IT Assist, the Northern



**Consumer research shows awareness of, and confidence in us, is at its highest level**

Ireland Civil Service-managed service provider of IT services. This provides a secure, fully managed IT support service and we will be looking at further opportunities to develop the use of IT and related telecommunication advances during 2013/14.

### **Freedom of Information**

In 2012-13 we received 14 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.

A complaint was made to the Information Commissioners' Office (ICO) regarding the release of information in respect of one request. Following engagement with us and the requester, the ICO decided not to proceed further with the complaint.

### **Communication with stakeholders and consumers**

We continued to take steps to enhance our communication during 2012-13. Our stakeholder engagement programme continued to provide opportunities for us to reach out to more organisations than ever. In particular, we undertook a range of initiatives to support the participation of stakeholders (e.g. workshops) on major price control reviews.

We continue to advance efforts to improve accessibility. Our website was enhanced to improve accessibility (e.g. an online glossary was developed). We expect to rollout an organisational template for all our documents during early 2013-14 which focuses on accessibility enhancements. These include a

requirement to provide a plain English abstract, an executive summary and include a glossary in our published documentation.

We have been carrying out ongoing consumer research, since 2009, to inform our work. For instance, levels of consumer awareness about our work and remit are at their highest. 44% of those questioned were aware of our remit. Additionally, levels of confidence that we are achieving our remit are also at their highest. 65% of those questioned were 'very confident' or 'fairly confident' that we were achieving our remit.

# Appendices



# Appendix 1 - Financial report for the year ended 31 March 2013

## Central government financing

£106,000 was spent on areas not covered by current licences such as management of the CCL exemption scheme, the Electricity (Guarantees of Origin of Electricity Produced from Renewable Energy Sources) scheme and the Renewables Order (Northern Ireland) 2005 scheme. The rest of the UR's costs were covered by licence fees.

## Licences

A breakdown of licence fee income is set out in Table 3 below.

Table 3: Licence fees by utility	Total licence fees (£000s)
Electricity	4,471
Gas	2,122
Water	1,233

We also collect fees on behalf of CCNI. This is for work done under the Energy (Northern Ireland) Order 2003 and Water and Sewerage Services (Northern Ireland) Order 2006. The total fees collected were £840,253, of which £211,214 was attributed to electricity, £158,409 to gas and £470,630 to water.

## Accounts

The Statement of Comprehensive Net Expenditure shows that salary costs increased from the previous year (£4,619,000 in 2012-13 against £4,252,000 for 2011-12). This reflected the fact that the office was close to full complement for the most of 2012-13 year and paid an additional PAYE liability in year. Other costs increased mainly as a consequence of the need to provide for the cost of regulatory referrals in year.

The percentage of staff costs to total costs in 2012-13 of 56% represents a decrease from that in 2011-12 61%.

Our gross expenditure in pursuit of our objectives as detailed in the Statement of Operating Costs by Operating Segments (see Table 4) was as follows.

Table 4: Expenditure by segment	2012-13 (£000s)	2011-12 (£000s)
Segment 1 (electricity)	5,046	3,385
Segment 2 (gas)	1,948	2,267
Segment 3 (water)	1,296	1,262

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 in Tables 5 and 6. These figures were subject to final audit at the time of publication of this report.

Table 5: Operating cost statement	2012-13 (£000s)	2011-12 (£000s)
<b>Programme costs</b>		
Staff costs	4,619	4,252
Other (non-staff) costs	3,671	2,662
<b>Total costs</b>	8,290	6,914
Operating Income	(8,308)	(6,530)
Net operating cost	(18)	384

Table 6: Costs by objective for the year ended 31 March 2012	2012-13 (£000s)			2011-12 (£000s)		
	Gross	Income	Net	Gross	Income	Net
<b>Segment 1</b> To protect the interests of consumers of electricity supplied by authorised suppliers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the generation, transmission or supply of electricity.	5,046	4,953	93	3,385	3,331	54
<b>Segment 2</b> To promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland.	1,948	2,122	(174)	2,267	1,971	296
<b>Segment 3</b> To protect the interests of water and sewerage services, where appropriate by the promotion of effective competition.	1,296	1,233	63	1,262	1,228	34
<b>Total</b>	<b>8,290</b>	<b>8,308</b>	<b>(18)</b>	<b>6,914</b>	<b>6,530</b>	<b>384</b>

## Appendix 2: Progress against Forward Work Plan targets, 2012-13<sup>5</sup>

Ref. Number	Lead Directorate	Strategic Theme	FWP Project	Status	Outcome
1	CA	Own development	Carry out an independent assessment of the adequacy of our internal audit service.	Partly achieved	The analysis of the internal audit service has been largely completed, with a report due in early 2013-14.
2	CA	Own development	Consider options for assessing our organisational performance.	Achieved	We have considered the options and identified a number of performance measures.
3	CA	Own development	Develop our role as a competition authority.	Revised	Our role will be developed in line with the requirements of legislative changes.
4	CA	Own development	Implement an accessibility action plan to enhance and improve the accessibility of key publications and review our approach to consultation.	Achieved	We have now introduced a standard template for all our documents and on our website that will include features to improve accessibility (e.g. plain English abstract). Our consultation review led to the development of a consultation standard which will provide a consistent basis for our consultation practice.
5	CA	Own development	Implement an organisational HR strategy.	Partly achieved	HR policy framework in place and draft HR strategy developed.
6	CA	Regulatory framework	Develop and modify licences to give effect to the requirements of IME3.	Partly achieved	Licence modifications developed and implemented in April for non-notified areas.
7	CA	Regulatory framework	Develop the first annual Regulatory report to EC in accordance with IME3 guidance.	Achieved	This was incorporated into our annual report.
8	CA	Sustainability	Engage with DETI on the development of proposed New Energy Bill, including consideration on options for increasing levels of energy efficiency activity in Northern Ireland.	Achieved	The Energy Bill will make provision for a future obligation to be introduced.

<sup>5</sup> See 2011-12 FWP at [www.uregni.gov.uk/publications/2011\\_12\\_forward\\_work\\_plan\\_published/](http://www.uregni.gov.uk/publications/2011_12_forward_work_plan_published/)



Ref. Number	Lead Directorate	Strategic Theme	FWP Project	Status	Outcome
9	CA	Sustainability	Ensure that the Renewable Energy Guarantee of Origin (REGO) system can work effectively with Fuel Mix Disclosure methodologies.	Achieved	The REGO system working in conjunction with Fuel Mix Disclosure.
10	CA	Sustainability	Propose and bring forward improvements to the LEC issue and redemption process.	Revised	This has been deferred to accommodate other priority work in-year.
11	CA	Sustainability	Review through engagement with DETI and the Sustainable Energy Inter Departmental Working Group (SEIDWG) options for promoting energy efficiency.	Ongoing	We continue to engage through SEIDWG on options for promoting energy efficiency.
12	CA/E	Sustainability	Introduce new support mechanisms for renewables, post the Renewables Obligation (including working with DETI to assess electricity market reform proposals).	Ongoing	The options being considered in conjunction with DETI.
13	Cross	Monopoly regulation	Review the approach to the regulatory reward framework for regulated companies that are non-network and non-asset based.	Revised	This has been deferred to accommodate other priority work in-year.
14	E	Competition	Implement decisions regarding improvement on contract market liquidity and the mitigation of the exercise of market power.	Achieved	A decision to allow horizontal integration of ESB generators and not allow ESB vertical integration was implemented by putting license modifications for ESB in place.
15	E	Competition	Implement enduring solution on Transmission Use of System Charging, so market participants pay the right and fair costs in the SEM.	Achieved	After full consultation more effective and transparent allocation of costs has now been put in place.
16	E	Harmonising energy markets	Develop, in conjunction with the CER, interim arrangements for regional integration of the energy market.	Partially achieved	A decision paper has been published on next steps and a road map for the full implementation has been developed.

Ref. Number	Lead Directorate	Strategic Theme	FWP Project	Status	Outcome
17	E	Harmonising energy markets	Ensure that the rules for the operation of the SEM (the Trading and Settlement Code - TSC) reflect decisions on market development.	Partially achieved	Modifications have been implemented as approved.
18	E	Monopoly regulation	Complete price control for PPB.	Achieved	Licence modifications giving effect to our price control determination were published in August 2012.
19	E	Monopoly regulation	Complete price control for NIE T&D.	Achieved	The price control determination published in October 2012. NIE T&D rejected determination in November and preparations being advanced for a referral to the CC.
20	E	Monopoly regulation	Review connection policies to ensure that consumers are able to access supply at reasonable cost.	Achieved	We approved a new statement of charges in September 2012. This document was significantly enhanced from the previous version and the schedule of costs expanded to improve transparency.
21	E	Monopoly regulation	Review consumer benefit for GUAs, implement any decisions to cancel and review options for the future of the PPB business.	Achieved	A review of GUAs was carried out and five out of seven contracts were cancelled. PPB continues to administer the remaining contracts.
22	E	Monopoly regulation	Review cost reporting for the RP5 price control.	Revised	Delayed due to non-acceptance of the price control by NIE T&D and referral to the CC.
23	E	Regulatory framework	Influence longer-term development of regional integration at EU.	Partially achieved	We are actively involved in policy formation at EU level through the electricity working groups.
24	E	Regulatory framework	Review the implications of both private networks and contestability of connections within electricity networks.	Revised	Work on this project has been deferred due to competing priorities.
25	E	Regulatory framework	Review the regulatory requirements associated with offshore developments, including offshore connections.	Partially achieved	We commenced a consultation, in March, on the methodology to be used to connect offshore generators that have been granted development rights by the Crown Estate.

Ref. Number	Lead Directorate	Strategic Theme	FWP Project	Status	Outcome
26	E	Sustainability	Continue to work with DETI to advance smart metering provision.	Partially achieved	Development of consultation paper underway and due to be published later in 2013.
27	E	Sustainability	Engage with DETI in relation to the implementation of changes arising from the Renewable Energy Directive.	Partially achieved	The decision was published on order of priority dispatch for renewable generation to allow effective implementation of Renewable Energy Services (RES) Directive in dispatch decisions.
28	E	Sustainability	Implement arrangements for all island security of supply (e.g. fuel switching arrangements for fuel security).	Partially achieved	SONI are progressing the developing of fuel switching agreements and work is continuing.
29	E/G	Regulatory framework	Finalise and implement protocols for ensuring Utility Regulator view is communicated at the Agency for the Cooperation of Energy Regulators (ACER).	Partially achieved	A draft memorandum of understanding with Ofgem, regarding our engagement with ACER, has been developed and is expected to be agreed during the first part of 2013-14.
30	G	Competition	Implement the decision to introduce competition to the natural gas market in the ten towns area.	Achieved	The Ten Towns market open for competition for industrial and commercial market in October 2012 and the first consumers have switched.
31	G	Harmonising energy markets	Consider CAG project reviews and determine optimum solution for implementing Gas Regulation requirements.	Partially achieved	The CAG balancing report largely complete and IME2 Gas Regulation requirements in place. Consultation complete on IME3 Gas Regulation.
32	G/E	Harmonising energy markets	Review the options regarding the unbundling of energy assets in respect of IME3 legislation, including the development of separate licensing for electricity distribution and certification arrangements.	Partially achieved	Certification preliminary determination for PTL and BGTL sent to EC.
33	G	Harmonising energy markets	Work within ACER to finalise and implement EU network codes at Interconnector points.	Achieved	Capacity allocation network code complete with implementation ongoing and work continuing on remaining ACER network codes.

Ref. Number	Lead Directorate	Strategic Theme	FWP Project	Status	Outcome
34	G	Monopoly regulation	Complete price control for BGE transmission.	Achieved	Completed in October 2012.
35	G	Monopoly regulation	Complete regulated tariff reviews for Phoenix Supply Ltd.	Achieved	Completed in February 2013. We approved an 8.7% price increase by Airtricity (formerly Phoenix Supply Ltd).
36	G	Monopoly regulation	Complete work as necessary on the referral of the price control of PNGL to the CC.	Achieved	The CC made its determination in November. While the determination allowed PNGL to retain historic outperformance, consumers benefitted from £19 million of benefits as a result of deferred capex decision.
37	G	Monopoly regulation	Consider approach for firmus energy supply tariff review.	Achieved	Reporting for monitoring the market is agreed and in operation.
38	G	Monopoly regulation	Consider price control approach for firmus energy supply.	Achieved	Reporting in place to deliver price control in 2013.
39	G	Monopoly regulation	Implement, in conjunction with DETI, any decision to extend the natural gas network	Achieved	We have worked with DETI on the economic appraisal and a consultation on licence launched in April 2013.
40	G	Monopoly regulation	Initiate price control for firmus energy distribution.	Achieved	The approach for distribution price controls has been consulted on and the company has submitted its business plan.
41	G	Monopoly regulation	Initiate price control for PNGL.	Achieved	The approach for distribution price controls has been consulted on and the company has submitted its business plan.
42	G	Monopoly regulation	Review connection policies (in line with distribution price controls) to ensure that consumers are able to access supply at reasonable cost.	Revised	This has been postponed to the next price control due to the challenging timeframe.
43	G	Sustainability	Implement EU regulations on security of supply, jointly with GB and RoI.	Achieved	We have worked with the Department of Energy and Climate Change and DETI to produce a UK Emergency Plan and Preventative Action Plan in line with EU Regulation 994/2010.



Ref. Number	Lead Directorate	Strategic Theme	FWP Project	Status	Outcome
44	G	Sustainability	Implement licensing arrangements for gas storage.	Achieved	The first licence was granted to IMSL in October 2012.
45	R&S	Competition	Deliver post Enduring Solution go live projects, for example improving keypad switching arrangements.	Achieved	The global aggregation and settlement project completed. Keypad consumers now switching smoothly.
46	R&S	Competition	Deliver, in conjunction with NIE T&D, the Enduring Solution, which includes an unlimited electricity switching system to make it easier for consumers to change supplier.	Achieved	The Enduring Solution was introduced in May 2012 and has delivered unlimited switching capacity for the electricity market and has created a fully functional and open domestic electricity supply market.
47	R&S	Competition	Develop and implement a compliance plan which will avoid confusion for energy consumers on branding of products and services by energy companies.	Revised	The need for this project was removed.
48	R&S	Competition	Finalise, and implement as necessary, the decisions on the strategic development of the energy retail market in Northern Ireland.	Achieved	The decisions were ratified by the our board and published in spring 2012. Policy implementation is currently underway.
49	R&S	Competition	To consult on and deliver global aggregation and settlement.	Achieved	The project was completed in autumn 2012 and is now in operation.
50	R&S	Competition	Undertake a stage 2 review of the operation of the retail energy markets in Northern Ireland, for example reviewing the code of practice for switching consumers in debt.	Achieved	Lessons learnt are being applied to retail and social policy and regulation framework. Further work in this area also planned for 2013-14.
51	R&S	Harmonising energy markets	Deliver with CER the retail harmonised baseline on an all island basis.	Achieved	Harmonisation of the market messaging infrastructure for retail markets north and south has been delivered. This has increased the efficiency of how suppliers work in the market.
52	R&S	Monopoly regulation	Complete regulated tariff review for Power NI.	Achieved	The Power NI regulated tariff review resulted in a 14.1% decrease in consumer bills.

Ref. Number	Lead Directorate	Strategic Theme	FWP Project	Status	Outcome
53	R&S	Monopoly regulation	Further develop a comprehensive energy retail market monitoring framework.	Achieved	Enhanced monitoring in place (e.g. market shares and switching). Pricing work (Stage 1) completed and published. Further work in this area is also planned for 2013-14.
54	R&S	Monopoly regulation	Initiate price control for Power NI.	Achieved	An approach document has been published and initial proposals for scope and consumers coverage will be consulted on in due course. Further work in this area is also planned for 2013-14.
55	R&S	Protection	Complete a review of our Social Action Plan.	Revised	The project has been delayed until 2013-14.
56	R&S	Protection	Consult on a new Social Action Plan.	Revised	The project has been delayed until 2013-14.
57	R&S	Protection	Consult on and implement a new code of practice on marketing and door-step selling.	Partially achieved	The marketing code of practice is currently being consulted on. It includes protection measures which aim to prevent mis-selling of electricity contracts and provide extra protection for marketing to vulnerable consumers. Implementation is due to commence in 2013-14.
58	R&S	Protection	Develop a model code of practice to help consumers avoid/manage debt, including minimum standards that must be met by energy suppliers and developing policy on backdating of bills.	Partially achieved	Work on code requirements underway. Implementation is due in 2013-14.
59	R&S	Protection	Develop and promote a new energy consumer checklist to increase and improve consumer information.	Achieved	The energy consumer checklist was developed in conjunction with suppliers and CCNI. It includes clear and practical information on consumer rights in relation to the energy sector.

Ref. Number	Lead Directorate	Strategic Theme	FWP Project	Status	Outcome
60	R&S	Protection	Implement all required consumer protection projects derived from the new European legislation (IME3) e.g. increase clarity in bills, timelines for switching consumers by suppliers.	Achieved	Licence modifications aimed at increasing consumer protection went through a second stage consultation and were granted Ministerial approval. Licence modifications came into effect in September 2012.
61	R&S/CA	Sustainability	Work with DETI to implement relevant aspects of the new Energy Efficiency Directive including billing and metering and the proposed 1.5% energy savings target.	Achieved	Initial scoping undertaken. Timelines have been discussed with DETI. Further work in this area also planned for 2013-14.
62	R&S/G	Protection	Work on the alignment of gas and electricity policies where appropriate.	Achieved	Internal discussions are now underway (e.g. retail and gas teams worked together on the codes of practice review in spring 2013). Further work in this area also planned for 2013-14.
63	W	Monopoly regulation	Complete an analysis of, and report on, NI Water costs and performance compared to price control (PC10) targets.	Achieved	Our published report shows that NI Water continues to make progress and develop as a regulated company.
64	W	Monopoly regulation	Complete price control for NI Water (PC13).	Achieved	The PC13 final determination was published on 13 December 2012 and accepted by NI Water on the 14 February 2013.
65	W	Monopoly regulation	Deliver relevant recommendations from the Public Accounts Committee (PAC) report on Measuring the Performance of NI Water.	Partially achieved	Actions predominantly rest with NI Water and our role is on updating on progress when requested by the Northern Ireland Audit Office (NIAO).
66	W	Monopoly regulation	Initiate price control project for NI Water (PC15).	Achieved	An approach document was published on 26 November 2012.
67	W	Protection	Consider longer term actions arising from the freeze/thaw recovery action plan to mitigate the risks of future adverse weather events for vulnerable consumers.	Achieved	New monitoring arrangements for long-term actions are now in place. These are also, where appropriate, being considered as part of PC15.

Ref. Number	Lead Directorate	Strategic Theme	FWP Project	Status	Outcome
68	W	Regulatory framework	Assess the implications of the various reviews of water regulatory regimes elsewhere for our regulatory practice.	Achieved	We continually monitor and consider publications from other jurisdictions.
69	W	Regulatory framework	Review and develop an approach for assessing and determining capital asset maintenance.	Achieved	An approach document was published on 8 February 2013.
70	W	Regulatory framework	Review and develop an approach for assessing the efficiency of Public Private Partnerships operating in NI Water.	Achieved	Achieved in the context of PC13. Ongoing and being considered further for the six year PC15.
71	W	Sustainability	Require NI Water to set out its vision and strategic objectives within their PC15 Business Plan. This should address sustainability issues and be informed by DRD's Long-Term Strategy for Water.	Achieved	This was included with the PC15 approach document published on 26 November 2012.
72	W	Sustainability	Review the social, economic and environmental implications arising from GB reviews of the water industry as they relate to Northern Ireland.	Achieved	We continually monitor and consider publications from GB reviews of the water industry.



## Appendix 3 – Glossary and list of abbreviations

<b>Ancillary services</b>	Provides non-technical assistance and support.
<b>Capacity Payment Mechanism</b>	This is a method of remunerating generators for providing their generation capacity to the market.
<b>Capital expenditure</b>	Also referred to as capex. Funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. This type of outlay is made by companies to maintain or increase the scope of their operations. These expenditures can include everything from repairing a roof to building a brand new factory.
<b>Capacity value</b>	Is a fixed 'pot' of money that is calculated on an annual basis by the Regulatory Authorities, with technical assistance from the System Operators.
<b>Capitalisation Practice</b>	The process of classifying expenditure between capex and opex.
<b>Climate Change Levy</b>	CCL is a tax on energy used by businesses. It was announced in the March 1999 budget and implemented on 1 April 2001.
<b>Combined heat and power</b>	Where electricity is generated onsite and the waste heat is utilised from the process.
<b>Common Arrangements for Gas</b>	Is a project to establish all-island common arrangements for gas, whereby all stakeholders can buy, sell, transport, operate, develop and plan the natural gas market north and south effectively on an all-island basis.
<b>Cost and Performance Report</b>	An annual report that outlines our independent assessment of how NI Water has performed against efficiency targets and key performance indicators outlined in their price control. Where appropriate, we also compared NI Water's performance with water and sewerage companies in England, Scotland and Wales. These reports are available on our website.
<b>Curtailment</b>	Is associated with the operation of variable (wind) generation and with cases where there is too much generation relative to demand.

<b>Deferred capex</b>	Money included in the price control allowance that was deferred by the licence holder for operational reasons and was allowed to remain in the RAB.
<b>Delivering a secure and sustainable electricity system (DS3)</b>	The programme to deliver a secure, sustainable electricity system.
<b>Electricity market reform</b>	A programme to assist government to achieve the 2020 renewable generation targets.
<b>Enduring Solution system</b>	The enduring solution provides the IT systems and processes through NIE T&D, as the common market services provider in Northern Ireland, to enable unlimited consumer switching.
<b>Energy Retail Report</b>	An annual report that provides information on the regulated energy sector in Northern Ireland, which is available on our website.
<b>GD14</b>	Gas distribution price control for 2014-2016.
<b>Generator Unit Agreement</b>	Generator Unit Agreements are long-term contracts between two parties, one who generates electricity for the purpose of sale and another one who buys the electricity. Also referred to as Power Purchase Agreements.
<b>Guaranteed standards of service</b>	Guaranteed Standards of Service. Standards of service that utility companies must adhere to and that consumers can expect.
<b>High level design</b>	In relation to the SEM and regional integration, it is a set of principles that underline the trading arrangements of the wholesale electricity market.
<b>Historic outperformance</b>	When a company spends less than the regulated allowance.
<b>Large industrial consumers</b>	Consumers using over 20,000 MWh of electricity.
<b>LECs</b>	Levy Exemption Certificates are issued through the CCL scheme to accredited generators in Northern Ireland and the Republic of Ireland.
<b>Long Term Water Strategy</b>	DRD's development plan for Northern Ireland's water industry, which will specifically deal with climate change and extreme weather conditions.
<b>Margin</b>	Profit made or the amount by which the price of something exceeds its cost.
<b>Market messaging infrastructure</b>	IT systems to allow suppliers to talk to NIE regarding switching suppliers and other market services (i.e change of meters).

<b>Medium-term plan</b>	NIE T&D's plan to address renewable connections to the electricity grid.
<b>mscn</b>	Million standard cubic metres.
<b>National regulatory authorities</b>	The regulatory authority on energy for a country, for example, in Northern Ireland this would be the Utility Regulator for Northern Ireland and CER for the Republic of Ireland.
<b>Net present value</b>	The present value of a security or an investment project found by discounting all present and future receipts of incomes and outgoings at an appropriate rate of interest.
<b>Network code</b>	Contractual arrangements between the network system operator and network users.
<b>Northern Ireland Renewable Obligation</b>	The Northern Ireland Renewable Obligation is a statutory requirement on electricity suppliers to source an increasing amount of their electricity from renewable sources.
<b>Northern Ireland Sustainable Energy Programme</b>	The Northern Ireland Sustainable Energy Programme, which was previously known as the Energy Efficiency Levy provides funding for energy efficiency and renewable energy schemes.
<b>Operating expenditure</b>	Also referred to as opex. Ongoing cost for running a product, business or system.
<b>PC10</b>	The price control for NI Water for 2010 - 2013.
<b>PC13</b>	The price control for NI Water for 2013 - 2015.
<b>PC15</b>	The price control for NI Water for 2015 - 2021.
<b>Quarterly Transparency Reports</b>	Quarterly reports that provide a range of information about the retail electricity and gas markets in Northern Ireland, for both domestic and non-domestic consumers. These reports are available on our website.
<b>Regional Integration Project</b>	The project is aimed at developing the necessary modification to SEM in order to implement the European 'Target Model' for cross border capacity allocation and congestion management upon which the Internal Electricity Market is to be founded. Congestion management is about managing transmission constraints across the various interconnectors.
<b>Regulatory asset base</b>	Is the value of the regulated business on which it can earn a return and the capital base used in setting charge limits. It is also known as the 'regulatory capital value' and the 'regulatory asset value'.

<b>Renewable obligation certificates</b>	Renewables Obligation Certificates are green certificates issued by the Utility Regulator to operators of accredited renewable generating stations for the eligible renewable electricity they generate. Operators can then trade the ROCs with other parties, with suppliers ultimately using the ROCs to demonstrate that they have met their obligation.
<b>Retail Markets Coordination Steering Group</b>	Governs the all island market harmonisation scheme.
<b>Single balancing zone</b>	Currently the Northern Ireland and ROI transmission networks are operated and balanced separately. The aim of the study was to investigate a means of creating a balancing zone between these two networks.
<b>Single Electricity Market</b>	Single Electricity Market is the joint wholesale electricity market for Northern Ireland and the Republic of Ireland.
<b>Target Model</b>	The vision behind the greater regional integration of the electricity market.
<b>Ten Towns</b>	A gas distribution network which includes the major towns outside Belfast along the transmission pipe, which are served by firmus energy.
<b>Tie-breaks</b>	Is when the TSOs are required to dispatch down plant and the plants available are seen as equal by the TSOs, i.e. no deciding indicator, including a bid price differential, exists to support such a decision.
<b>Total Regulatory Value</b>	Is the total value of a regulated company's assets, upon which they earn a regulated return. It may also be called the Regulated Asset Base (RAB).
<b>Vanilla, real</b>	This is when the cost of capital is expressed as a 'vanilla' WACC in real terms (ie. adjusted for inflation), the required return is set equal to a weighted average of post tax cost of equity and pre tax cost of debt. Tax is estimated and allowed for separately as part of the regulated revenue entitlement. See also WACC.
<b>Weighted average cost of capital</b>	The cost of capital allowed by a regulator reflects the opportunity cost of the funds invested in assets. The weighted average cost of capital is weighted by a mixture of debt and equity. It is expressed as a percentage of their investment and is used by regulators to set the level of allowed returns. See also vanilla, real.

# Abbreviations

<b>ACER</b>	Agency for the Cooperation for Energy Regulators
<b>BAGs</b>	Board Advisory Groups
<b>BGTL</b>	Belfast Gas Transmission Ltd
<b>CAG</b>	Common Arrangements for Gas
<b>CC</b>	Competition Commission
<b>CCL</b>	Climate Change Levy
<b>CCNI</b>	Consumer Council for Northern Ireland
<b>CER</b>	Commission for Energy Regulation
<b>CHP</b>	Combined Heat and Power
<b>CPM</b>	Capacity Payment Mechanism
<b>DETI</b>	Department of Enterprise, Trade and Investment
<b>DFP</b>	Department of Finance and Personnel
<b>DRD</b>	Department for Regional Development
<b>DS3</b>	Delivering a secure and sustainable electricity system
<b>EC</b>	European Commission
<b>ESB</b>	Electrical Supply Board
<b>EU</b>	European Union
<b>FWP</b>	Forward Work Programme
<b>GB</b>	Great Britain
<b>GD14</b>	Gas distribution price control 2014 - 2016
<b>GMOG</b>	Gas Market Opening Group
<b>GSS</b>	Guaranteed Standards of Service
<b>GUAs</b>	Generator Unit Agreements
<b>HR</b>	Human Resources
<b>I&amp;C</b>	Industrial and Commercial
<b>ICO</b>	Information Commissioner's Office
<b>IME2</b>	Second Internal Energy Market Package
<b>IME3</b>	Third Internal Energy Market Package
<b>IMSL</b>	Islandmagee Storage Ltd
<b>IT</b>	Information Technology
<b>LECs</b>	Levy Exemption Certificates
<b>MMU</b>	Market Monitoring Unit
<b>NIAO</b>	Northern Ireland Audit Office
<b>NIE T&amp;D</b>	Northern Ireland Electricity Transmission and Distribution
<b>NIRO</b>	Northern Ireland Renewable Obligation



<b>NISEP</b>	Northern Ireland Sustainable Energy Programme
<b>NPV</b>	Net Profit Value
<b>OPA</b>	Overall Performance Assessment
<b>PAC</b>	Public Accounts Committee
<b>PC10</b>	Price Control (for NI Water) 2010
<b>PC13</b>	Price Control (for NI Water) 2013 - 2015
<b>PC15</b>	Price Control (for NI Water) 2015
<b>PNGL</b>	Phoenix Natural Gas Limited
<b>PPB</b>	Power Procurement Business (Power NI's)
<b>PTL</b>	Premiere Transmission Ltd
<b>REGD</b>	Renewable Energy Guarantee of Origin
<b>ReMCoSG</b>	Retail Markets Coordination Steering Group
<b>RES</b>	Renewable Energy Services (Directive)
<b>ROCs</b>	Renewable Obligation Certificates
<b>RP5</b>	Regulatory Price Control Period 5
<b>SEIDWG</b>	Sustainable Energy Inter Departmental Working Group
<b>SEM</b>	Single Electricity Market
<b>SONI</b>	System Operator of Northern Ireland
<b>TRV</b>	Total Regulatory Value
<b>TSC</b>	Trading and Settlement Code
<b>TSOs</b>	Transmission System Operators
<b>UR</b>	Utility Regulator
<b>WACC</b>	Weighted Cost of Capital





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