

PPB Price Control Licence Modification Decision

Decision on Licence Modifications to enact
the determination on the PPB Price
Control

10 June 2019



About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs, Wholesale and Networks. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.



Our mission

To protect the short- and long-term interests of consumers of electricity, gas and water.



Our vision

To ensure value and sustainability in energy and water.



Our values

- Be a best practice regulator: transparent, consistent, proportionate, accountable and targeted.
- Be professional – listening, explaining and acting with integrity.
- Be a collaborative, co-operative and learning team.
- Be motivated and empowered to make a difference.

Abstract

The Utility Regulator is publishing its Final Determination on the Licence Modifications to enact the Power Procurement Business price control.

This determination is being published following a price control consultation in September 2018, and a price control final determination and licence modification consultation in January 2019.

Audience

Energy industry, stakeholders, electricity licence holders, electricity consumers, electricity consumer representatives and policy makers.

Consumer impact

While the GUAs overseen by PPB can have a material impact in consumers in Northern Ireland, and have had very significant impacts historically, the impact of PPB's price control itself is relatively small, as the business costs around £2m per annum to operate.

This paper is focused on the necessary task of regulating PPB to the end of its life as a business, rather than the potentially more impactful question of cancellation of the GUAs.

Executive Summary

Following a consultation published in September 2018, in January 2019 the Utility Regulator published a final determination on the Power Procurement Business (“**PPB**”) price control from 2019. Along with the final determination, a consultation on the proposed licence modifications, necessary to enact the price control determination, was also published.

The Utility Regulator has received one response (from PPB) to the licence modifications consultation. Having considered this response, the Utility Regulator is publishing a decision on the licence modifications.

Introduction and Background

The Power Procurement Business (PPB) was established in 1992 as a guaranteed purchaser following the creation of long term power purchase contracts (known as Generating Unit Agreements (GUAs)) as part of the privatisation of the Northern Ireland electricity industry. PPB was originally a separate regulated business under the Northern Ireland Electricity Transmission and Public Electricity Supply licence, and now sits under the Power NI Electricity Supply licence.

In September 2018, the Utility Regulator consulted on a final price control for PPB, to determine the returns the company should earn under the revised SEM arrangements, and to ensure that the interests of consumers are protected.

Following this consultation, in January 2019 the Utility Regulator published its final determination on the final price control to be applied to PPB, to be effective from 27 May 2019 to 23 September 2023, or whenever the final GUA is terminated (whichever occurs sooner). This final determination included amending PPB's core allowance to £3.8m per year.

Along with the final determination, the Utility Regulator also published a Notice under Article 14(2) of the Electricity (Northern Ireland) Order 1992 (as amended), in order to consult on the necessary Modifications to Power NI Energy Limited's Electricity Supply Licence in order to enact the price control.

The purpose of the Consultation Notice was to bring the proposed modifications to the attention of interested parties and invite representations or objections in relation to the modifications.

One response was received, from PPB. This paper summarises PPB's response, and provides the Utility Regulator's comment and final decision.

PPB Response to the Licence Modification Consultation

PPB made three main points in responding to the consultation. While PPB did not comment on the values proposed, they made it explicit that this does not mean that they accept the proposals.

PPB Comment	UR Response
<p>While we are not commenting on the values proposed at this time, this does not mean we accept the proposals and we have made representation on that separately.</p>	<p>The UR acknowledges this comment.</p>
<p>The changes proposed remove all the component elements on the basis that each of DEP_t, RTN_t and PD_t are zero. The PD_t term must remain albeit that initially the value would be set to zero.</p>	<p>The final determination states on page 21 that no allowance will be included for pension deficits in the new price control. The drafting proposed reflects this statement. Separate provision has been made that any forward-looking pension deficit that remains on wind-up will be dealt with in the Y_t term.</p>
<p>The new final paragraph under the definition of E_t is slightly confusing as the pro-rating could be interpreted in two ways, one being the basis of the period up to the “termination notice having effect” and the other being the value specified by notice to the Licensee. The pro rata value should simply be the</p>	<p>The drafting provides that the pro rata value that is to be used is the one specified in the notice by the Utility Regulator, but it makes clear that the period in respect of which the Utility Regulator is to calculate the value (i.e. the period of pro rating) is to be the part of the relevant year up to the point at</p>

<p>value specified in the notice to PPB provided by the Authority.</p>	<p>which the termination notice has effect.</p>
<p>The definitions of Y_t and Z_t seek to set out the relevant year in which these allowances are applicable and non-zero.</p> <p>Were the UR to direct early cancellation of the contracts, the current drafting of sub-paragraph (b) would mean the allowance would be applicable in “the year immediately following the issuing of a termination notice...”. This means that, for example if the UR issued such a notice on 1 April 2022, the allowance would not be allowed until the year commencing 1 April 2023, but by that stage, the PPB business would be wound up. In such circumstances, the allowance should apply in the relevant year in which the GUAs are terminated.</p>	<p>The purpose of saying that the number relates to the year <i>after</i> the year in which the final contract is terminated reflects the fact that these are wind-up values which require a process of calculation that may take time to carry out. There is no reason why the business would wind up immediately on the termination of the contracts, instead of only once the outstanding costs and liabilities have been dealt with.</p>

Utility Regulator's Decisions

Following consultation, the Utility Regulator is making the modifications to the PPB entitlement (E_t) as proposed in the consultation. The Utility Regulator is not making the proposed modifications to PPB's share of the gross surplus (PGS_t).

Retaining the existing gain-sharing arrangements will ensure PPB are incentivised to deliver value for consumers. This follows consideration of PPB's representation and the Utility Regulator's assessment of their expected performance under the revised SEM arrangements.

Other than the change described above, the Utility Regulator will make the modifications to Power NI Energy Limited's Electricity Supply Licence as described in the Notice Under Article 14(2) of the Electricity (Northern Ireland) Order 1992 (as Amended) published for consultation on 14 January 2019.

The full text of the Modification can be read in full under the Article 14(8) notice published with this decision.

These Modifications will take effect from 6 August 2019.