ANNUAL REPORT **2003/04**

Northern Ireland Authority for **Energy Regulation**

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NIA 121/03

ANNUAL REPORT 2003/04

of Northern Ireland Authority for Energy Regulation

Laid before the Northern Ireland Assembly in accordance with Article 6 (4)(a) of the Energy (Northern Ireland) Order 2003 by the Department of Enterprise, Trade and Investment

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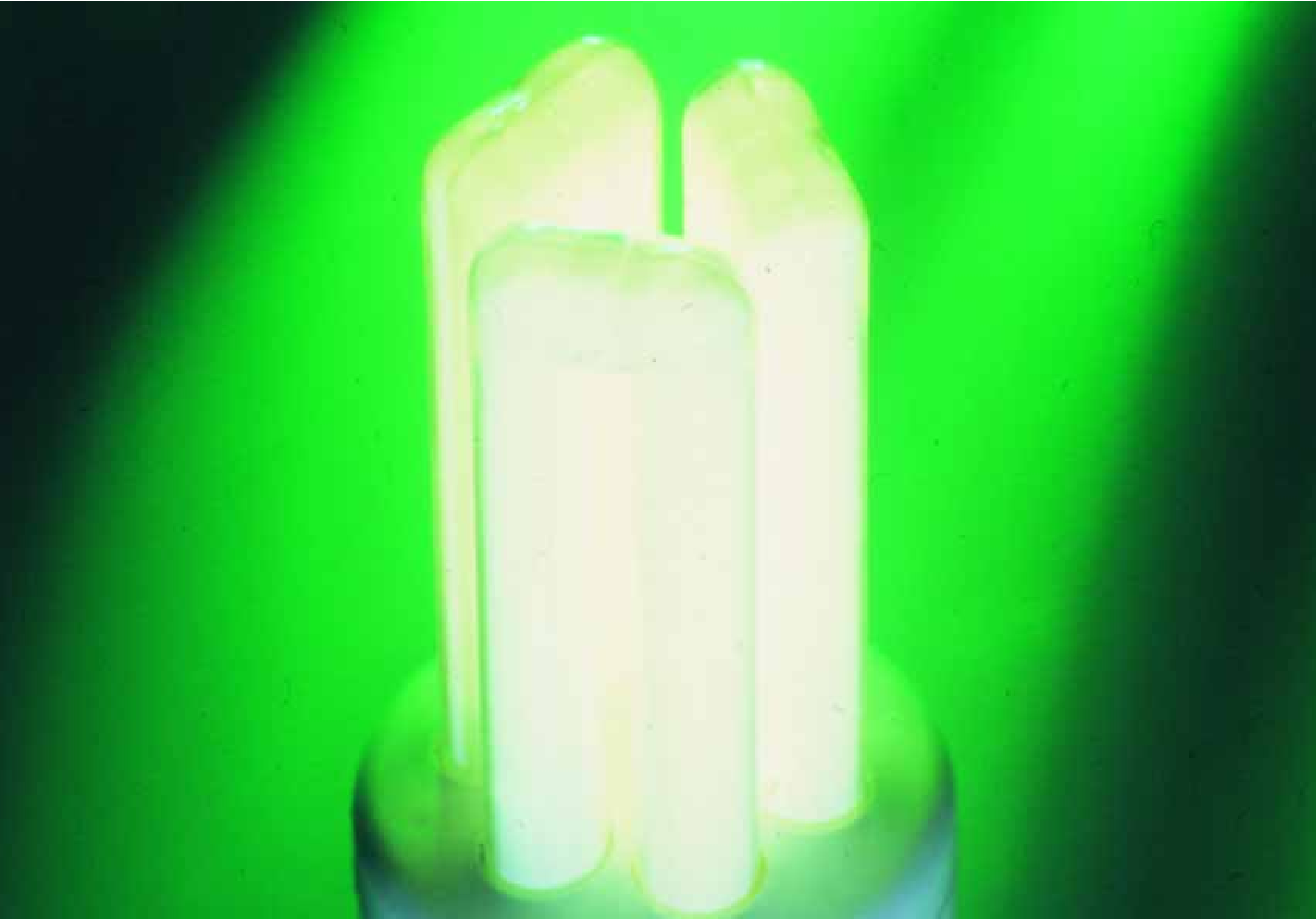
Northern Ireland Authority for Energy Regulation



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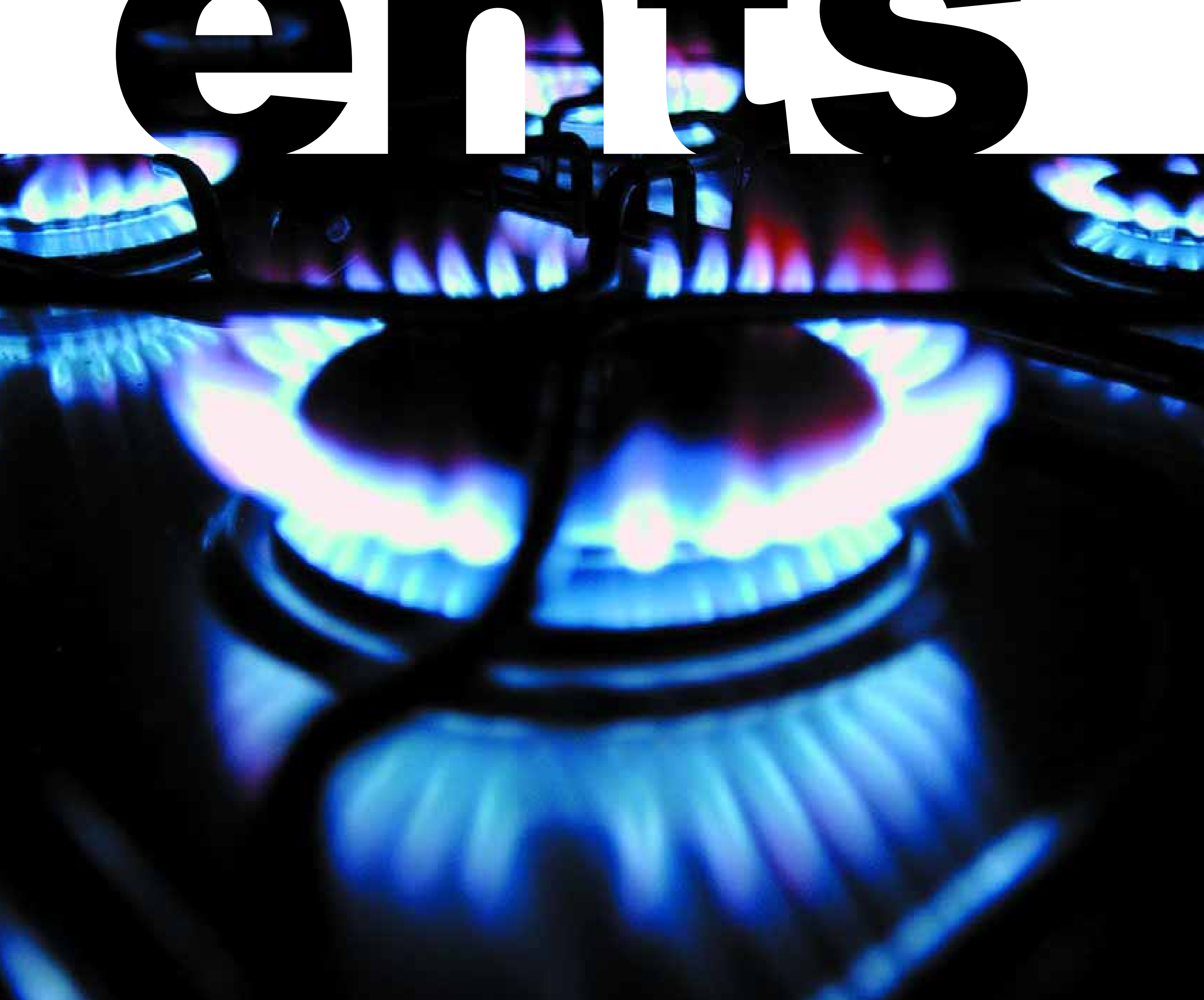


electricity

To: The Department of Enterprise, Trade and Investment

I enclose the Northern Ireland Authority for Energy Regulation's (the Authority) Report on its activities including a general survey of developments in respect of matters falling with the scope of its functions for the year ended 31 March 2004 as required by Article 6 (4) (a) of the Energy (NI) Order 2003. As this report is in respect of the first year of operation of the Authority for which no Forward Work Programme existed I am not in a position to comply with para 6 (2) (b) of the Order. Future reports will however address this matter.

I confirm on behalf of the Authority that during the period of this Report,

i) The Authority made no references to the Competition Commission.

ii) The Authority made no final or provisional Orders and imposed no penalties under Part VI of the Energy (NI) Order 2003.; and

iii) The Authority received no general directions under Article 50(2) of the Electricity (Northern Ireland) Order 1992 or under Article 27(2) of the Gas (Northern Ireland) Order 1996.

D B McIldoon
Chairman: Northern Ireland Authority for Energy Regulation

1 The Chairman's Report

Statement from the Chairman of the Northern Ireland Authority for Energy Regulation

This year saw the relentless rise of energy costs. There are two causes: supply/demand conditions in markets and governments.

The price of the three main fossil fuels - oil, coal and gas - continued to rise this year. The rapid growth of the Chinese economy is frequently cited as the cause of the pressure on demand and hence prices for the raw materials of economic growth. Northern Ireland's management of its purchase of fossil fuels creates some local peculiarities.

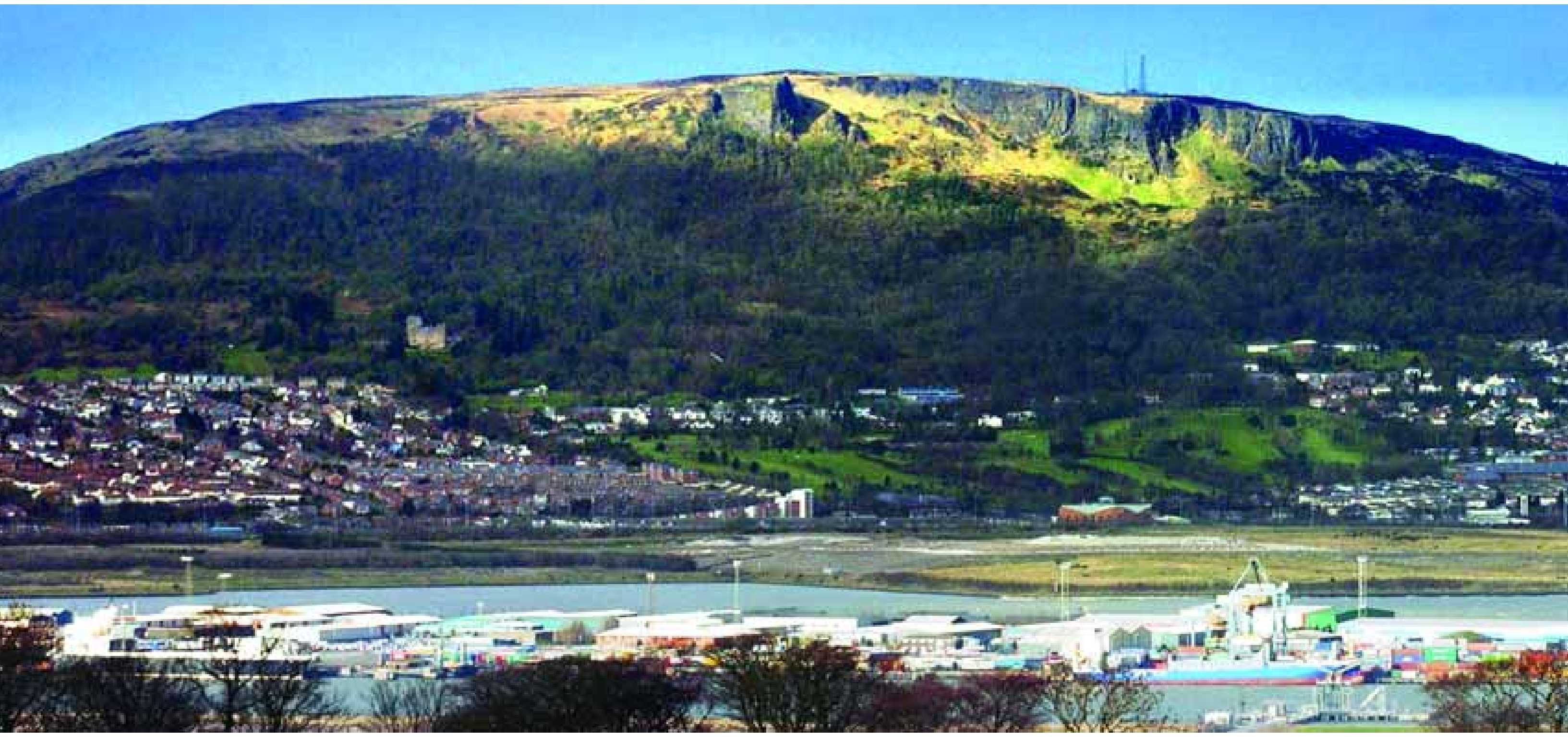
The gas which is bought under contract - the LTI 3 contract - for Ballylumford is indexed against the price of both coal and heavy fuel oil. The high price of coal - up from around $30 in 2002 to $60 a tonne in December 2003 - hit not only the price of coal going into Kilroot but also the price of gas going into Ballylumford. The Government's policy of hiking up the duties on Heavy Fuel Oil - against which Ballylumford gas is also indexed - added yet a further twist to the gas spiral. The indexation of the take or pay contract with Scottish Power is also against coal prices - an indexation which looked low risk a year earlier! As some of these price increases are lagged they do not all translate immediately into higher prices. A price rise of 2.8% for domestic customers was however necessary for 2004/5.

What the markets don't do to prices, governments can. European Union (EU) Directives and Government measures formulated with the perfectly laudable aim of protecting the environment and combating climate change threaten to bring in their train yet further price increases without achieving the intended environmental gains cost effectively.

Much of the year was spent in assisting Department of Enterprise, Trade & Investment (DETI) manage the introduction into NI of the EU's Emissions Trading Directive (ETS) which will come into effect on 1 January 2005. Under this scheme power stations will need permits for each tonne of C02 they release into the atmosphere in the course of generating electricity. These permits must be allocated by Government ("grand fathering"), based on historic emissions, or bought.

Although the United Kingdom (UK) has submitted its National Allocation Plan to Brussels the precise NI allocation is not known. The indications are that the methodology employed by the UK will work against the interests of NI consumers who will have to pay for the additional units of carbon required. While it remains to be seen how the cost of carbon will affect electricity prices in the future, Northern Ireland Electricity's (NIE) long term contracts with Kilroot, Ballylumford and Scottish Power should mitigate the effect. In general, the expectation is that emissions trading will result in a large windfall gain for generating companies in Great Britain (GB). In the Republic of Ireland (ROI) it is proposed to give the Regulator power to claw this windfall gain back and re-distribute it to customers.

Customers face two other imminent price threats from Government which, although much discussed in 2003/4, will only bite in 2005. The first is the cost of the systems needed to facilitate further market opening. The Authority and the industry have worked closely to minimise these. While some



customers may gain from further market opening, it is unlikely that the gains will outweigh the collective costs. The same electricity will be bought from the same producers under slightly different rules.

The second is the threat of a renewables obligation. Given NI's relative success in stimulating renewables, an obligation is unnecessary. It involves requiring customers in NI to pay again for what they have already bought. It is ultimately a self-defeating policy as it will, at the margins, reduce the amount of carbon we take out of the environment.

In the Autumn, in the autumn the Minister, Ian Pearson, became the bearer of good news on prices when he announced that he proposed taking out about £30m per annum of the excess costs of privatisation. These excess costs were anti-competitive in that they would lead to price increases as the market opened further. Thanks to this announcement it was possible to absorb cost increases and hold non-domestic prices flat for 2004/5 with the expectation that they will be reduced by 4% on average when all the formalities have been completed. (Unfortunately, at the time of going to press this proposal has run into problems which it is hoped will in time be resolved. The immediate consequence has been an average 6% rise for industrial customers).

Finally, on electricity prices I gave a commitment that I would each year report on the cost or benefit to customers from changing the Ballylumford contract. While the new Combined Cycle Gas Turbine (CCGT) was fully commissioned in the course of the year we have not yet had a full year of CCGT running. Nevertheless, the savings to customers in 2003/4 from lower fuel bills offsetting a higher combined charge for availability and the Customer Buy out of the old station resulted in a saving of at least £16.9milion compared to the cost of the Station.

The bad news on prices applied equally to the gas industry. Phoenix increased its prices by 10.8% in October 2003 despite criticism from the General Consumer Council for Northern Ireland (GCCNI) and the Authority. It endeavoured to increase them again by a further 20% in March 2004 to cover a possible price increase in its Centrica gas supply contract. This second increase was suspended as a result of public criticism and pressure from the Minister.

Against this global background of rising energy costs the Authority in its first year in office had to seek to protect the interests of customers.

When fuel costs are rising and carbon is being taxed, the most effective way of defeating rising costs is to use electricity more efficiently, produce it more efficiently, use more gas than coal and - if it can be done cost effectively - more renewables.

In 2003 the Ballylumford CCGT was fully commissioned. In a full year 3500 GW/hs from the CCGT should avoid the use of 130 M Therms of gas at an avoided gas plus carbon cost of between £25 and £35m per annum. The commissioning of Coolkeeragh's CCGT should reinforce this trend. In this context the growth of renewables helps avoid rising fuel bills although it is still marginal in its impact. In 2003/04, 250 GW/hs of renewable electricity were sold - doubling the previous year's sales. Moreover, some categories of customers were actually using less electricity. For the second year in a row domestic customers recorded a small fall in average consumption. This small reduction in Co2 per household was, however, more than offset by a growth in customer numbers.

In the past year therefore, NI took an enormous stride away from the very dirty fuel hungry generation peak of 1992 to one which, in 2005, will be the cleanest non-nuclear park in the British Isles with C02 emissions per KW/h generated between two thirds of half of those in 1992; the exact proportion will depend on Kilroot's load factors.

Customer empowerment continued throughout the year and by the end of the year 8,000 small businesses and 10,000 domestic customers had exercised the right to buy green energy. The small business customer typically achieved savings of 5-10% partly by avoiding Climate Change Levy (CCL). These numbers are expected to continue to grow.

Empowerment of domestic customers continued with the roll out of Keypad Meters which are now used by 127,000 customers and a time of day tariff pilot study for domestic customers. The first two domestic combined heat and power plants (dCHP)were installed and are being carefully monitored.

Further forms of customer empowerment came in the various measures promoted by Action Renewables and NIE under its Sustainable Management of Assets and Renewable Technologies (SMART) programme to assist and encourage individuals to produce electricity and water heating on their own premises. These schemes are only in their infancy and there is a shortage of installer skills. However, they are likely to reflect a trend under which an increasing percentage of the cost of energy will be capitalised into the cost of new and re-furbished buildings.

External relations are important in the developing European single energy market. The Office for the Regulation of Electricity and Gas (Ofreg, now known as the Authority) which had been a founder member of the Council of European Energy Regulators (CEER) was debarred from membership when it was decided to limit membership to one per member state. This has created the anomalous situation that NI's customers are the only people in Europe who are not represented in European market decision making and have indeed even less rights in this respect than citizens of Iceland and Norway which are not member states. This anomalous situation has not been resolved

A major pre-occupation of the Authority in its first year has been the relationship between the electricity market in NI and the market in ROI. Both Governments are committed to the construction of a single energy market on the island and the Authority has participated in the Joint Steering Group of Departmental officials and Regulators committed to taking this forward. Within the physical limits of the transmission links between the two networks much has been achieved. About 5% of ROI's electricity comes from, or through NI. An ESB/Ballylumford contract was signed in the course of the year and flows of renewable electricity from ROI enabled demand growth from renewable electricity in NI to be met before new renewable generation could be constructed in NI.

Consultants were appointed to advise on the way in which NI should respond to ROI's introduction in 2006 of its new Market Arrangements for Electricity (MAE) which are based on locational marginal pricing. The National Economic Research Associates (NERA), the consultants appointed, produced an interim report and the Authority held hearings in Dublin with industry stakeholders.

The consensus view is that initially, at least, NI should not join the MAE. The MAE is designed with the intention of providing sufficiently strong signals to the market that new generation investment is needed. NI does not require new investment in fossil fuel power stations and has no reason to embrace the high generation price that may be needed to attract new investment. However, this divergence in interest may change with the passing of time.

To round off the picture on electricity it should be noted that discussions are underway with Kilroot to see if it will be possible to make changes to the contract which will be in the interests of customers. These discussions were still under way at the end of the year. The unpredictable element for both customers and the owners of Kilroot is whether power stations will continue to be allocated free emission permits after 2012 and if so, on what basis. Any contract revision needs to share this risk equitable between customers and shareholders. As it is the hardening stance of policy makers against carbon makes it increasingly difficult to envisage a longterm future for Kilroot other than as back up and security.

Finally, NIE is continuing to reduce its charges to customers year on year through the Transmission & Distribution (T&D) and Supply Price Controls as well as promoting energy efficiency under the Energy Efficiency Levy and encouraging renewables demand side management and embedded generation. A growing number of projects have been supported under the SMART programme. These are reported on in more detail elsewhere. NIE's range of non-traditional activities now constitutes an important part of the energy product which it offers to its customers in NI. In its ability to continue to evolve in this direction lies customers' best hope that they will continue to enjoy secure and reliable energy at affordable costs in a world which is increasingly concerned with reducing the adverse impact of energy on the environment.

The Authority's first year as the gas industry regulator was turbulent. The decision to offer Bord Gais Eireann (BGE) the position of preferred bidder for the distribution licences outside Belfast led to a judicial challenge from the unsuccessful bidder - Phoenix. While the legal challenge was not successful it inevitably diverted effort from proceeding with the distribution licences. These discussions were by the end of the year almost completed and it is expected that BGE will be offered a distribution licence in 2004/5.

During the course of the year, East Surrey Holdings bought out the two original shareholders in Phoenix. This change caused an interruption in the process of establishing a long term basis for financing Phoenix. It is now widely recognised that long term stability in the gas industry requires a financing period which is closer to the economic life of the assets than the original licence provided. Negotiations to establish the longer term basis were resumed after Christmas but were not concluded by 31 March 2004.

Relations between the Authority and Phoenix and its customers were further complicated by the prospect of a rise in the price of the supply contract which Phoenix has with Centrica. This contract - originally an intra company British Gas contract - was designed to assist Phoenix develop against the incumbent oil industry in NI. By 2003 it resulted in prices below gas market prices and Centrica sought to exploit its re-opening provisions. While Phoenix always knew that it would in 2006 have to adjust to the full market price for gas, the premature and sudden switch to market or near market prices was an additional and unwelcome blow to the company and to public confidence in the natural gas industry. Phoenix's decision to increase its prices by 20% in March 2004 caused considerable public anger and it was withdrawn. By 31 March the dispute between Centrica and Phoenix had not been resolved.

On a more positive note the gas pipeline to the north west got under way and Phoenix continued throughout 2003 to add to its customer numbers. Behind the scenes, work continued on the complex task of putting in place the arrangements for achieving a single postalised transmission price across the three pipeline systems which will exist in NI. Under the auspices of the Joint Steering Group, the Brattle Group of consultants was appointed to examine the prospects for a single tariffing regime for gas transportation in Ireland post 2006 when the two networks will be joined together. The installation of micro and domestic combined heat and power plants (mCHP and dCHP) opens for the gas industry the prospect of a greatly enhanced product to expand still further the contribution it is making to the transformation of NI's energy market.

Finally, in the course of the year the owners of the Scotland to Northern Ireland Pipeline (SNIP) - having sold their shares in Phoenix to East Surrey - agreed to sell SNIP to a "not - for- distributed – profit" company similar to the company which owns Moyle. Completion of the sale is expected in the summer of 2004. This is expected to result in greater customer savings than Moyle but the extent of them will depend on the market rates at the time of the transaction's completion.

The Authority had seven meetings in Belfast, one in Dublin and one in Londonderry. It met the Minister, Ian Pearson, twice and had meetings with many key personalities in the industry. It has worked closely with the GCCNI. The Authority's first year in office has been a difficult and turbulent year. While we would like to have been able to conclude the year on a more positive note we believe that the underlying value of much of what has been achieved will be translated in the coming years into tangible customer benefits.

2

Competition and Regulation

All-island Electricity Market

A Joint Steering Group, comprising of the Authority the Commission for Energy Regulation (CER) and Government Departments (DETI and the Department of Communications, Marine & natural Resources - DCMNR)was convened to oversee the development of the all-island market. In 2003 the CER proposed new trading arrangements for the ROI and the Authority was represented on many of the CER groups set up to implement the new trading rules. In addition, the Internal Market for Electricity (IME) Group commissioned a study into how NI should interface with the proposed arrangements in ROI. NERA were appointed to advise on whether NI should join the new ROI arrangements or how to best interface with them if a decision was made not to join. This report is due in mid 2004.

Market Opening

In mid 2003 the Authority formed a Further Market Opening Steering Group (FMOSG) to oversee the implementation of the next phases of market opening. The EU Directive directs that the electricity market in Member States should be open to all non-domestic customers by 2004 and for all customers by 2007. The FMOSG comprises representatives from the Authority, DETI, NIE and the electricity industry. A further group was then established and known as the Supplier Interface Group (SIG). The SIG consists of representatives from the Authority, NIE and all the electricity supply licence holders in NI. FMOSG targets the policy and strategic elements of market opening and SIG focuses more on the technical/operational aspects.

To date market opening has been implemented in the least cost way possible and has not added significant costs to any customer category. Minimising cost is a key determining factor in any decisions made with respect to market opening in NI. There are a number of ways in which the electricity market could be opened to competition, and examples exist in other markets (new trading arrangements proposals in ROI and the trading arrangements in 1998 in GB). These range from a 'big bang' approach to a phased approach. If an inappropriate approach and market structure is chosen this could create risks of stranded costs and price instability. An inappropriate approach to market opening may have the adverse effect of adding to cost rather than providing an opportunity for the market to reduce cost through effective competition.

The Authority has consistently opted for a phased approach to market opening. It is important to drive the costs out of the generation sector, which is essentially where the excess cost burden currently lies, thus setting up more favourable conditions for when the market is fully opened to competition. Therefore work was undertaken by the Authority in 2003 to achieve a basic restructuring of the framework for costing and charging to recover the costs inherent in the existing power purchase arrangements. The development of revised electricity levies and the move to a lower cost and transparent Bulk Supply Tariff (BST) creates the scope for competitive customer switching and allows for further liberalisation to meet the 2007 requirement for full choice for domestic customers.

Electricity Interconnection

April 2003 saw the fourth full year of interconnector trades with the ROI . 330 MWs were available for export to ROI and 195MWs were purchased at the capacity auction held in December 2003. This capacity was taken up by Airtricity, BGE, Energia and the Energy Supply Board Independent Energy (ESBIE) for the period from 1 April 2004 to 31 March 2005. In a south-north direction there were limited opportunities for export of electricity and, as in the previous year, most of the net transfer capacity during day time hours was zero. However from 1 April 2003 a mechanism called superposition was developed by the two system operators System Operator Northern Ireland (SONI) and Eirgrid) and the two regulators, the Authority and CER. This facilitates increased levels of cross border trading and allows participants to match imports and exports to ensure both trades are permitted.

The year 2003 also saw the third auction of Moyle interconnector capacity. The Authority issued a decision paper in October 2003 regarding interconnector allocation procedures with effect from 1 April 2004. The auctions were then held on the 9 and 15 December 2003 and a total of 4 bidders took part. Three bidders were successful in obtaining capacity. Airtricity obtained 95MWs, Energia obtained 20MWs and ESBIE obtained 40MWs. All available capacity was auctioned successfully. No bids were received for Moyle export (NI-Scotland) capacity.

NIE's Power Procurement Business (PPB) 70-month contract with Scottish Power for 125MW of Moyle capacity was auctioned for the third successive year and made available to suppliers to the NI eligible customer market. This auction is called the Moyle Energy Equivalent Auction (MEE) and was held in November 2003. Three bidders, BGE, Energia and ESBIE obtained capacity.

Wholesale Electricity Market

The new CCGT plant at Ballylumford was fully commissioned in September 2003. This is a 600MW plant and has been built alongside the existing "B" power station. It is the biggest single CCGT plant on the island of Ireland. The plant should lead to lower electricity prices via fuel and other operating efficiencies and a cleaner environment via reductions in C02.

Work continued on the new 400MW CCGT at Coolkeeragh and will operate as an independent generator (i.e. will not be contracted to NIE PPB). When commissioned it will be the only independent large- scale power producer in NI.

The Authority appointed SONI in 2003 to produce a 7-Year Generation Capacity Statement, covering 2003/04 – 2009/10. The intent of the 7-Year Statement is to indicate to the market when a generation capacity shortfall may occur, and do so in sufficient time so that the market may respond by building new power stations. Fortunately there is no immediate need for investment in a further new power station, but at some point this issue may need to be faced.

Regulation

In April 2003 NIE following representations by the Authority agreed to the disposal of the Moyle Interconnector to Moyle Holdings Ltd a newly formed company which was established on a 'not for profit' basis. This disposal represents the conclusion of talks which had been on-going since June 2002. The Moyle Interconnector is a 500MW high-voltage DC electricity transmission link between the electricity grids of NI and Scotland. Moyle Holdings Limited is a 'not for profit' company whose members and directors were nominated by Team Northern Ireland. Team Northern Ireland is a private sector initiative established to increase infrastructure investment in NI.

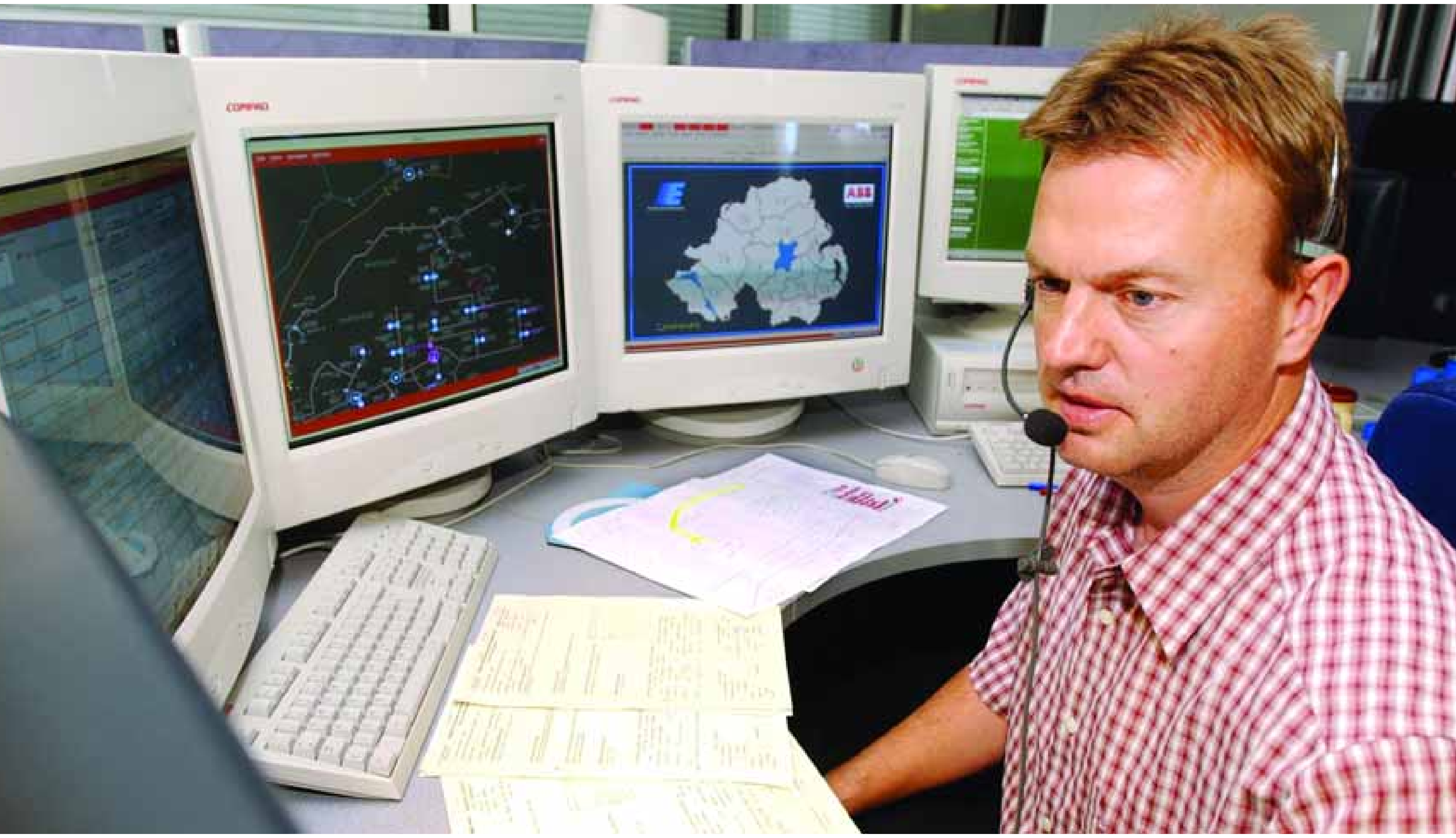
In addition to the disposal of the interconnector NIE agreed to a £10m reduction in the Regulated Asset Base (RAB)of NIE's T&D business. The disposal price of the Moyle Interconnector amounted to £120.88m. It is expected that this deal will save customers in the region of £1m per annum over the next thirty years. In addition to saving customers money the lifetime over which these assets have to be paid for has been reduced from 40 years to 30. This obviously means that customers will effectively get the use of this asset 'free' for a period of 10 years.

During the year work continued with NIE on setting the incentives in place which were agreed as part of the T&D price control. In response to the price control NIE have set up their SMART programme. There are three main elements to this strategy. SMART 1 deals with near market technologies and the money devoted to this project is to act as a 'pump priming' fund which aims to lever in additional monies from third parties. NIE receives an incentive to maximise the amount of money they can lever in and this money is used to support a range of projects; examples of this would be photo voltaics, and dCHP.

SMART 2 has two elements; the first 2(a) is aimed at projects which provide network support. This can come from either Demand Side Management (DSM) or Embedded Generation (EG). DSM is about controlling or limiting electricity demand in areas of network weakness by energy efficiency or load shifting, this can take place in either a domestic or business setting. EG concerns electricity generation in an area of particular network weakness. This generation must be either CHP or renewable and non-intermittent. NIE published a list of areas where such network reinforcement is required and are currently talking to interested parties about a number of schemes.

Element 2 (b) of SMART 2 concerns non-network supporting EG. This recognises the fact that some good embedded generation projects do not have specific network benefit but deserve support on the basis of 'pump priming'. Here the generation must be renewable and non-intermittent.

Talks continued with the NIE Supply Business with regard to an extension to the Supply price control which is to take effect in April 2005. The Authority and NIE are close to reaching an agreement which will continue the pioneering approach which the Supply Business is following and which is delivering significant benefits for customers.



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Delivering Energy Efficiency

Energy Efficiency Levy

An Energy Efficiency Levy of £1 per customer was first introduced by the Authority in NI from April 1997 and was increased incrementally over the intervening years standing at £5 per customer for the 2003/04 year.

As originally conceived the Energy Efficiency Levy Scheme was primarily intended to save carbon emissions and costs through energy efficiency initiatives. Increasingly however as the reduction in fuel poverty has climbed higher up the ladder of Government policy objectives, the Scheme's focus and resources became skewed towards programmes aimed at improving the position of the fuel poor. Fuel poverty is the situation in which a household spends more than 10% of its income on heating and electricity.

Projects seeking support from the levy can be submitted by holders of electricity supply licences in NI. At 31 March 2003 the only proposals received for the 2003/04 financial year were from NIE's Supply Business. The types of projects that the levy supported in the 2003/04 year have been:

-Warm Homes Scheme (heating and insulation)

-insulation

-low energy lighting

-heating controls

-small scale CHP

A report is produced annually (available from NIE) setting out the annual and cumulative achievements from the levy in terms of energy saved, customer benefits and carbon savings. Figures for the 2003/04 year will not be available until July 2004 but cumulative figures from April 1997 to 31 March 2003 are:

Customer benefits..£79.9m

Energy saving...1698Gwh

Carbon savings ....299.244 tonnes

Amount of money spent £8.48m

Energy Efficiency and the Supply Price Control

In NIE's Supply Price Control for the period from April 2000 to April 2005, NIE was charged with finding energy efficiency savings for customers valued at £2m per annum -a total of £10m over the price control period over and beyond those funded by the Energy Efficiency Levy. Essentially NIE Supply was given a task of developing schemes to achieve energy efficiency as well as increasing the number of keypad meters installed.

As a result of the extension of the Supply Price Control NIE to 2007, NIE will increase the number of keypad meters by 25,000 annually and at the same time introduce further energy efficiency measures aimed at delivering £4m of lifetime savings from initiatives such as encouraging cavity wall insulation and condensing boilers and the use of low energy light bulbs by Housing Associations.

At 31 March 2004 NIE had achieved £9.7m of lifetime energy savings. 127,200 keypad meters had been installed, and 15.94Gwh of renewable energy sold to 7509 Eco energy tariff customers.

SUPPORTING THE DEVELOPMENT OF COMBINED HEAT AND POWER

Combined Heat & Power (CHP) is the simultaneous generation of thermal heat and electrical energy. It is a technology that saves energy, reduces costs, cuts waste and represents a clear solution to the challenge of improving the environment.

Until recently CHP has been targeted at the business sector but rapid development in the technology is now able to deliver CHP to both smaller residential (micro CHP) and domestic (dCHP) markets.

The Authority has been at the forefront in facilitating the introduction of this technology into NI in 2003/04 through leading a study tour of interested parties to see the technology in operation in the UK. This study tour was successful and has resulted in the commissioning of 4 units (2 micro units and 2dCHP units) in NI. In addition, it has led to the companies supplying the units to actively marketing their product in NI with a target of commissioning at least another 50 units in the 2004/05 year. The development of CHP also has the potential to boost the gas industry (as CHP is powered by gas), thus reducing overall gas tariffs, help alleviate fuel poverty and benefit the environment.

Whilst there are a number of barriers still to be overcome on cost, connection to the grid and resale of surplus electricity by household and homes embracing dCHP, the Authority will continue to challenge these barriers so that NI can be a model for the roll out of this technology in Europe over the next ten years.

REDUCING EMISSIONS

Most energy used in NI is produced from fossil fuels which release harmful emissions, most predominantly carbon or C02, into the atmosphere when burned.

In delivering its objectives the Authority is required by legislation to have regard to the protection of the environment.

The most significant event in reducing emissions from electricity generation in NI occurred recently with the closure of Belfast West Power Station (BWPS) and the conversion of Coolkeeragh (in the process of conversion) and Ballylumford Power Stations to CCGT.

Furthermore the Authority has sought to fulfil C02 obligations through, for example, measures supported by the Energy Efficiency Levy up to March 2003, which lead to carbon savings of 299, 244 tonnes.

NI has seen quite a rapid growth in electricity generation from renewable sources. The Authority's policy of supporting this growth continued throughout 2003/04 through the operation and refinement of the Renewable Output Factor (ROF) which removes the uncertainty arising from the intermittancy of wind generation and the continued administration and operation of the Climate Change Levy Exemption Scheme which saw the Authority issuing 348,325 Levy Exemption Certificates with a value of £1.522m in 2003/04.

Natural gas is the least-polluting of fossil fuels. As the regulatory Authority with legislative responsibility for promoting the development of the NI gas market, the Authority has continued to support and facilitate development during 2003/2004.

Development of Northern Ireland's Gas Industry

The natural gas industry in NI is still in its infancy. At present the Greater Belfast and Larne areas are the only areas in NI that enjoy the social and environmental benefits of natural gas. Given this I see the development of the natural gas industry as a top priority.

4

Natural gas will bring considerable environmental, economic and social benefits to towns in NI. It is the least polluting fossil fuel and its availability in an area provides greater fuel choice for industry. Natural gas also provides domestic customers with the opportunity to convert from inefficient central heating systems to highly efficient gas condensing boilers and in due course to domestic CHPs.

Currently the operators of NI's natural gas infrastructure are Premier Transmission Limited (PTL) and Phoenix. PTL is now owned 50% by British Gas Energy Holdings Limited (BG Energy Holdings) and 50% by KeySpan. Phoenix is now owned 100% by East Surrey Investments Ltd.

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

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

The BGT licence authorises the supply of gas up to and within the boundaries of Ballylumford Power Station. Since 1996, Premier Power (owners of Ballylumford Power Station), Amoco and NIE have received similar supply

licences. Under its licence, PTL is authorised to convey gas from the low water mark at Castle Robin Bay to the Pressure Reduction Station at Ballylumford.

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

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

BGE are currently in the process of constructing two major new gas pipelines in NI. This is reported on more full below, and opens up the possibility of extending gas distribution and supply areas in NI beyond the current Phoenix licence area of Greater Belfast and Larne.

Regulation and Licence Issues of Northern Ireland's Gas Industry

Developments concerning Phoenix Natural Gas

(i) Phoenix price issues

The final selling price of gas charged by Phoenix is composed of four main elements: the cost Phoenix itself incurs for buying gas; the cost of transporting that gas to the Phoenix licence area in; Phoenix's own operating costs; and the cost of Phoenix's own pipeline infrastructure.

5

During the period of this report, it became widely known that the price Phoenix itself incurs for buying gas from its principal supplier – Centrica - was potentially to rise significantly. Whilst a resolution of this issue between Phoenix and Centrica has not been achieved at the time of this report, Phoenix has decided to suspend any related price rise for a period of time so that further discussions with Centrica can take place and a fuller understanding of the issues behind the potential price rise achieved by all parties. Coming on top of the 10.8% price rise to domestic consumers introduced in October of the report year, another large increase would be damaging to the development of the natural gas industry in NI. The Authority has and will continue to explore all avenues to try to eliminate the need for any future large-scale gas price rise.

As regards the element of the final gas supply price determined by the cost of Phoenix's own pipeline infrastructure, the Authority has over the course of the report year been in discussions with Phoenix on moving towards a longer term re-financing period for the recovery of their capital investment (40 years compared to the 20 year payback period envisaged in the original Phoenix licence). These discussions are ongoing, but should a mutually acceptable re-financing package be negotiated between Phoenix and the Authority, this will help to deliver long term price stability for that part of Phoenix's costs controllable here in NI.

Domestic tariff information: Natural gas tariff prices from Oct 2003 for domestic customers are shown below.

Home Energy Tariff

Standard Credit	Pence Per Kilowatt Hour for first 2000 KWh including VAT 3.15 (3.00) (Excluding Vat)	Pence Per Kilowatt hour for each Kilowatt hour there after Including VAT 2.096 (1.99) (Excluding Vat)
Direct Debit	Receives £21 per annum discount including VAT on Standard Credit. (£20 per annum discount excluding VAT).	
Pay As You Go	2.23 Including VAT (2.13) Excluding VAT	

Low User Tariff: applies where consumption of gas does not exceed 2,000 kWh per Annum

Direct Debit	£57.75 pounds per annum including VAT (55.00 pounds per annum excluding VAT)
Standard Credit	63.00 pounds per annum including VAT (60.00 pounds per annum excluding VAT)

Industrial and Commercial Customers Consuming below 732,000 kWh per annum tariff information:

Phoenix's commercial tariff covers properties whose annual consumption is between 73,200 and 732,000 kWh. New tariffs came into play from October 2003. The relevant tariffs are as follows:

First 2000 kWh	2000 to 73200 kWh	73200 to 732000 kWh
3.0	1.996	1.7

Industrial and Commercial Customers Consuming in excess of 732,000 kWh per annum:

These customers are charged on the basis of individually negotiated contracts. For reasons of confidentiality we are unable to publish details of individual contracts.

(ii) Phoenix Codes of Practice:

Following representations from the Authority, Phoenix has written a Codes of Practice document in consultation with the Authority and GCCNI.

These Codes guide customers through six main areas.These include;

1. Using gas efficiently in your home

   Customers are given advice on how to save money and make their homes more energy efficient

2. Using gas efficiently in your business

   Customers are provided advice on how to make financial savings

3. Special services for people with disabilities and older people

   Offering a range of services for vulnerable customers

4. Paying for your gas

   Various payment options explained

5. Using Pay As You Go (PAYG) meters

   Explains how to use a "pay as you go" meter and where customers can "top up" their paypoint card

6. Making a complaint

   Explains how Phoenix will handle complaints

The Codes of Practice will be available from May 2004. Copies will be available by contacting Phoenix on 02890 555 555 or downloading from Phoenix's web-site on www.phoenix-natural-gas.com.

Developments concerning BGE during 2003/04

(i) New BGE gas infrastructure

In 2002 the Authority issued a license to BGE (subsequently assigned to BGE (UK)) for the conveyance of gas through the following pipelines:

a) A pipeline to be constructed by BGE running between a connection point on the Ballylumford to Torytown Pipeline and an off take at Coolkeeragh PowerStation. (To be known as the North West Pipeline).

b) A pipeline to be constructed by BGE running between the BGE transmission network in ROI and the North West Pipeline. (To be known as the South North Pipeline).

During 2002 the Director General for Gas (DGG) gave his consent to BGE (NI), a trading arm of BGE (UK), to construct the North West pipeline in exercise of the powers conferred by Article 35 (7) of the Gas Order. Works for the construction of the pipeline have already commenced and is scheduled for completion in October 2004.

Work has continued with BGE (NI) during 2003/04 to ensure that all the arrangements are in place to facilitate the development of the NW and SN pipe projects. There are also various elements of the original BGE conveyance licence (formula development, cost reviews, etc.) that the Authority have been working closely with BGE on during the report year. The Authority will continue to work collaboratively with BGE to ensure these important pipeline projects are successfully brought to completion.

Developments concerning extending gas coverage during 2003/04

The building of the North West and South North Pipelines will provide the opportunity for the development of natural gas distribution and supply in towns and areas along the routes of the pipelines.

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

Early in 2003, the Authority and DETI invited formal applications for natural gas conveyance and/or supply licences. The invitation was open to all of the parties who previously expressed an interest as well as any other party with the necessary expertise.

In June 2003 BGE were selected by the Authority as preferred bidder for a licence for gas distribution and supply in towns/areas outside the current Phoenix licence area.

Phoenix, the other applicant for the licence, requested a Judicial Review questioning the Authority's preferred bidder decision. The Court in its ruling upheld the Authority's original decision and awarded costs of the court action against Phoenix. The Authority and DETI are in the process of negotiating the detail of the BGE licence and hope to be in a position to issue a draft licence for consultation shortly.

Developments Concerning Postalisation of transmission charges

Once the North West and North South pipelines are completed, NI's natural gas transmission infrastructure will be in the hands of three separate private companies each owning a portion of the NI gas transmission network respectively the Scotland - NI Pipeline, the Ballylumford to Torytown pipeline owned by Phoenix and the new transmission pipelines to the North West and to the South to link up with the BGE network.

Under the current gas transmission charging system for these pipes, each transmission pipeline owner will charge a separate tariff for the transmission of gas through each of the three systems. This would result in a situation whereby gas suppliers in the North West who must transport gas through all three systems would be charged all three tariffs. They would also need to sign multiple agreements with the three separate system operators governing the operational regime of each of the systems. This so called "pancaking" effect of multiple charging and multiple operational agreements would bring difficulties for customers located on the outskirts of the network.

Currently the Authority and DETI, exercising the powers conferred on them by the Order, are pursuing the principle of a "postalised" transmission tariff system. A postalised transmission tariff system would mean that a single "average" transmission tariff would be payable for the transmission of gas to any point on the NI natural gas transmission network. Alongside the single tariff aspect, the Authority is trying to make the associated operational arrangements as simple and effective as possible.

The principle of equalized tariffs applies to other services such as electricity. However in NI gas transmission terms, the number of pipeline owners and the fact that each pipeline owner has existing financial and contractual arrangements with customers, complicates postalisation. In December 2002 the DGG in conjunction with DETI published a consultation paper on first proposals for the implementation and operation of a postalised tariff system. This was followed in June 2003 by a second consultation on actual postalisation implementation proposals and a postalisation "decisions" paper in Autumn 2003.

The Authority intends to continue to actively work with the asset owners and shippers/customers to push forward the postalisation objective. Working with industry players as far as possible, the Authority intends to:

- Have the postalisation system operational in time for the scheduled commencement of gas transmission through the North-West pipeline to Coolkeeragh in October 2004;
- Have in place simultaneously the commercial and legal arrangements necessary for the system to become operational.

Developments regarding the possible refinancing of SNIP

The Authority's consultation document of Sept 2002 ("Paying for Interconnectors"), explained the costs savings from transferring the ownership of the electricity and gas Scottish Interconnectors from private companies to not-for-profit vehicles which are entirely financed by debt. Replacing the existing equity finance with debt finance – which has a lower interest rate – cuts the repayment costs of initial investment by the relevant electricity or gas company. However these savings need to be evaluated against any extra measures needed to manage the risks which are required following the removal of shareholders.

During 2003, the shareholders of PTL agreed to explore a re-financing transaction similar to the Moyle Electricity Interconnector investment. This culminated in the Premier Transmission shareholders and a prospective purchaser signed a Head of Terms in Feb 2004, thereby outlining the basis on which the refinancing sale will proceed. The Authority is working very closely with the parties to ensure that the refinancing sale can proceed and that the sale will be fully compliant with consumers' best interests.

6

The Northern Ireland Authority for Energy Regulation

Resources

1. Administration

The Energy (NI) Order 2003 ('The Order') established the NIAER ('the Authority') from 1 April 2003 and at the same time abolished the offices of Director General of Electricity Supply and Director General of Gas for Northern Ireland. The Order amended the Electricity (NI) Order 1992 and the Gas (NI) Order 1996 and transferred most of the functions described in those Orders to the Authority. The Order put consumers at the heart of regulation by placing on the Authority one principle objective for Electricity and one principle objective for Gas. The principle objective for electricity is set out in Article 12(1) of the Energy Order and the principle objective for gas is set out in Article 14(1).

In addition the Order transferred the assets and liabilities of the Directors General to the Authority.

The Authority's chairman and members (Appendix 1) were appointed by the Department of Enterprise Trade and Investment. The Chairman has been authorised by the Authority to undertake the day to day running of the Authority's administration in accordance with its rules of procedure.

The number of staff employed by the Authority at 31 March 2004 stood at 23 (see Appendix 3) excluding the 5 part-time non-executive directors.

Over the past year the Gas Regulation and Gas ExtensionTeam has been lead by Kevin Shiels. The team comprised Eamon Corrigan, Sarah Brady and Brian McHugh. In February 2004 Eamon was promoted to Principal Economist and now works with Brian McHugh on Gas Transmission and Postalisation. James Hutchinson has lead the Electricity Markets and Competition team comprising; Emma Magill and Orla Mullan throughout 2003/04. The Electricity Regulation team was led by Seamus O'Hare supported by Mike Lowry. Eddie Gaw was recruited in August 2003 as Head of Finance and Administration, supported by John White as Office Manager. Gerry Donnelly is head of Environmental Affairs and Energy Efficiency Section. Anne McMinnis and her team provide the secretariat to the Authority Board

2. Recruitment, Training and Development

The Authority members are recruited by DETI on merit through fair and open competition. This ensures opportunities for employment regardless of race, sex, physical disability, religion, or marital status. Staff are seconded from either DETI or Department of Finance and Personnel where recruitment activities are carried out by NI Civil Service Commission and / or Departmental Personnel Divisions. During the course of 2003/04 the Authority has been seconded the following staff :

1 Grade 7 Accountant;

1 Principal Economist;

2 Economists;

1 Administrative Officer

All of the above staff were recruited to fill vacant posts.

In relation to the training and development of staff, the Authority in conjunction with DETI operates a policy of Personal Development Plans through which staff and their line manager agree on their training and development needs and how / when this training is to be carried out. There was continuing emphasis on the development of necessary specialist skills, for example in the regulatory economics field, and on financial management and IT skills.

During the course of the year training courses and seminars were carried out for all staff on Equality and Disability Awareness

3. Finance and Funding

3.1 Resource Accounts

As a non-ministerial Government Department the Authority's funds are voted by Parliament and accounted for on an annual basis through the Resource Account. The published accounts are available from The Stationery Office or can be downloaded from our website (http://ofreg.nics.gov.uk). The cost of running the Authority in the financial year ended 31 March 2004 amounted to £1,999,000. The Authority's original resource budget as per spring supplementary estimates was £2,442,000. More detailed financial information on costs can be found in the Authority's Resource Accounts.

The Operating Cost Statement (the public sector equivalent of a profit and loss account) and a schedule setting out our financial performance in pursuit of objectives are shown below.

Operating Cost Statement

	2003-04	2002-03
	£000	£000
Administration Costs		
Staff Costs	827	829
Other administration Costs	380	385
Gross Administration Costs	1,207	1,214
Operating Income	(1,505)	(1,543)
Net Administration Income	(298)	(329)
Programme expendichure		
Expenditure	792	660
NET OPERATING COST	494	331

Costs by NIAER Aims and Objectives

	2003-04			2002-03		
	Gross	Income	Net	Gross	Income	Net
	£000	£000	£000	£000	£000	£000
for the year ended 31 March 2004						
Objective (I) To promote competition in the generation and supply of Electricity and to protect the interests of electricity consumers with regard to price and quality of service	1,273	(1,244)	29	1,381	(1,298)	83
Objective (II) To promote the development and maintenance of an efficient, economic and co-ordinated gas industry and to protect the interests of gas consumers with regard to price and quality of service	726	(261)	465	493	(245)	248
TOTAL (Schedule 2)	1.999	(1,505)	494	1,874	(1,543)	331

3.2 Licence Fees

The Authority's costs are recouped primarily from the annual fee paid by electricity and gas licensees. From 1 April 1998 the fees were reclassified as Appropriations in Aid and to give effect to the re-classification DETI gave the Authority permission to collect electricity licence fees on its behalf. No change was required to the arrangement for gas licence fees which are already collected by the Authority.

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

Gas licence fees are calculated on the basis of a Determination made by the Authority in respect of identifiable costs of gas regulation.

The Director's estimated costs for the current financial year will be apportioned between the holders of gas conveyance and gas supply licences on the basis of 80% to the holders of conveyance licences 20% to the holders of supply licences.

Cost Apportioned to Conveyance Licence Holders:

Conveyance costs will then be apportioned on the basis of a £50,000 charge to the holders of conveyance licences who engage in distribution activities. For the purpose of calculating the licence fee distribution activities will mean, the conveyance of gas to premises, were the consumption of gas in any period of 12 months is not expected to exceed 2,198,032 kWh.

The remainder will be apportioned on the basis of volumes conveyed in the previous year.

Costs Apportioned To the Holders of Supply Licences.

All supply licence holders will pay a charge equal to £1000 per year. The remainder of supply costs will be apportioned on the basis of volumes supplied in the previous year.

Costs Relating to the GCCNI

Costs relating to the GCCNI will be separately identified and apportioned equally between conveyance licence holders who engage in distribution activities.

Costs, Which Are Excluded From the Calculation

Costs in relation to Competition Commission references are identified separately by the licences. These will be passed on to the licensee in question.

Volumes To Be Attributable To Each Licence Holder

Table 1 sets out the volumes to be attributed to each licence holder for the purpose of calculating the licence fee.

Maximum Amount To Be Charged

In the event that any conveyance licence fee, as calculated using this methodology, exceeds the maximum allowed under the conveyance licence, the excess will be divided equally among all other conveyance licence holders.

Review Period

The licence fee calculation methodology will be reviewed every three years, or earlier if the Director feels that this is necessary.

The costs of the GCCNI in carrying out the duties assigned to it by the Order are collected by the Authority from NIE and Phoenix respectively on an apportion decided by the GCCNI. GCCNI costs for the Financial Year ended 31 March 2004 were £255,000.

The electricity licence fees collected in respect of the financial year ended 31 March 2004 totalled £1,500,000 whilst the gas licence fees in respect of the financial year ended 31 March 2004 totalled £500,000.

Table 1

Conveyance Volumes			Supply Volumes		
Volumes	Source of information	Attributable to:	Volumes	Source of information	Attributable to:
SNIP Volumes to Ballylumford Exit Point	PTL	PTL	BGT to Ballylumford exit point	PTL	BGT
PNG downstream distribution	PNG	PNG (Conveyance)	PPL to Ballylumford Exit Point	PTL	BGT
N/W pipe volumes to Coolkeeragh Exit Point	BGE	BGE	PNG downstream supply	PNG Conveyance Co	PNG (Supply)
N/W pipe volumes to other Exit Points	BGE	Conveyance licence holders for new areas in N/W	Other downstream suppliers on PNG Network	PNG Conveyance Co	Others
S/N pipe volumes, to all exit points	BGE	BGE or Conveyance licence holders for new areas	ESBI to N/W Coolkeeragh Exit Point	BGE	ESBI
			Other suppliers (All other areas)	Conveyance companie(s) that cover the relevant supply licence area	Others
Conveyance Volumes			= Supply Volumes		

3.3 Central Government Financing

Amounts of £331,000 in respect of the financial year end 31 March 2003 and £494,000 in respect of the financial year end 31 March 2004 were borne by central government in respect of expenditure on areas not covered by current licences such as gas promotion, equality etc.

3.4 Accounting System

The Accounting system was upgraded over the past financial year.The new system – Sun Systems 5.0 – will allow Finance Section to produce the resource accounts in a more effective manner, as a number of issues that were previously dealt with outside the accounting system can now be integrated and the system will generate the required data. The updated system also has an associated reporting module, which will be used to enhance the financial and management information available to staff throughout the Authority.

3.5 Audit

External Audit

The statutory annual accounts are audited by the Northern Ireland Audit Office (NIAO), who work with the Authority Finance Section staff from July through to final publication in October. The 2002/03 Accounts were given an unqualified certificate by the NIAO.

Internal Audit

The Internal Audit of the Authority is carried out on a contract basis. Following a tender exercise, a local company of professional accountants and auditors HELM were successful and will carry out the Internal Audit function for the next 3 years. The Internal Audit report, published July 2003 gave general assurance that the system of internal controls were adequate and operating effectively, although some recommendations for improvements were made and have since been implemented by the Authority's management.

Audit Committee

As per Her Majesty's Treasury guidelines an Authority Audit Committee was established and met on a quarterly basis during 2003/04 in order to provide additional assurance to the Accounting Officer that the system of internal controls are operating effectively. The Committee is chaired by Charles Coulthard and its members are Joan Whiteside, John Gilliland and Eddie Gaw, Secretariat is provided by Anne McMinnis.The Committee has been involved in the following areas :

(i) the approval of the provisional Internal Audit plan for the next 3 years;

(ii) the review of management responses and implementation of both external and internal audit recommendations over the past year;

(iii) the review and revision of the corporate risk register;

(iv) the development of management and financial information;

3.6 Corporate Governance

Corporate Governance has been strengthened, since the inception of the Authority, by the establishment of an audit committee, the implementation of External and Internal Audit recommendations, the development of a corporate risk register and the incorporation of risk management more fully into corporate planning and decision making. These developments assist in giving the Accounting Officer greater assurance that the Authority is maintaining a sound system of internal control that supports the achievement of the Authority's aims and objectives.

3.7 Payment Policy

The Authority complies with prompt payment guidelines set out by Government which specifies payment within 30 working days. The Authority endeavours to pay all undisputed invoices within 30 working day from receipt of invoice. During the financial year, 2003-2004, 97% of the Authority's creditors were paid within 30 working days.

4. Equality Scheme and Equality Impact Assessments

The Authority's Equality Scheme and Equality Implementation Plan were reviewed during the year to ensure its commitment to the fulfillment of the obligations in Section 75 of the NI Act 1998 is maintained. The obligations concern the promotion of equality of opportunity between the groups identified by the Act as relevant for NI purposes and promoting good relations between persons of different religious belief, political opinion or racial group.

In line with the implementation plan the following two areas were addressed: -

(i) Training held for all Authority staff on Equality and Disability Awareness;

(ii) Screening of Authority policies in order to ascertain should Equality Impact Assessments be carried out.

5. Publicity and Communications

The Authority's Freedom of Information Scheme was approved on 12 November 2002. The Scheme can be viewed on our website and sets out, among other things, the classes of information publicly available without the need for a specific request. An in year review was carried out to ascertain what additional responsibilities the scheme will impose from 2005 regarding the supply of information in response to individual requests.

Publications, consultation papers and press releases are routinely made available on the website. The Authority has as a result had a wide involvement with the media through interviews and features.

In the past year we have continuously improved and updated our website in order to inform and consult stakeholders in a user friendly and informative manner. Publicity consultants have carried out a review of the website and commented positively on it.

During the year a tender exercise was carried out in order to employ a new Public Relations Company – Weber Shandwick was the company chosen to manage the Authority's media and publicity.

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

Copies of licences and related documents are available for sale and may be viewed on our website - http://ofreg.nics.gov.uk/

6. Land Bank – Belfast West Power Station

In early 2003 NIE presented the Authority with a series of options for the future management of the BWPS site including:

- possible sale to Belfast Harbour Commission
- no demolition – leave the site as it is
- partial demolition – retain offices/accommodation
- full demolition – leave site as a benign brown field site

Following an appraisal of BWPS, validated by the Authority's consultants, on the assessment of the risk presented by its disuse and, it was agreed that prompt dismantling and demolition would be the safest course of action. The level of risk posed by the site in its current status is of concern. This relates chiefly to the release of asbestos and contamination of the local environment. Technical and Environmental reports have set out the basic strategy required to achieve the controlled, safe dismantling and demolition of the station. Prices for the work have been sought to assist in setting budgets.

According to NIE the first 4 Phases will cost £6million. On top of this a further £2.08million is estimated as being needed for NIE's Management Costs, Health & Safety Consultancy and Insurance. This gives a total of £8.08million against which NIE already have made provision of £4.7million".

It would be reasonable to assume that, from the date site works start, it will take two to three years to demolish and clear the BWPS site. However this does not include the time taken to draft relevant tender documentation, manage the tender processes, and assess bids and award contracts. This work could take between 3-6 months to complete.

The Authority have liased with NIE in order to establish the process of moving us towards a point where the Authority should be able to consent with reasonable confidence, when formally requested, to the expenditure which NIE expect to incur on the demolition project. This involves the Authority in the acquisition of technical expertise and opinion capable of providing the Authority with adequate reassurance that NIE are handling the demolition process in an economic and effective way which takes properly into account the risks and liabilities involved.

The Authority is currently tendering for consultancy expertise to interface with NIE / PPB for the duration of the project to decommission and demolish BWPS. As NIE PBB do not have the resources required to manage and deliver the demolition and clearance of the BWPS site they will establish a dedicated Project Management Team (PMT) and will be responsible for the procurement of the necessary resources to complete this project.

The Authority need to ensure that all programmes are realistic, complete and achievable, and have agreed with PPB / PMT that we will employ consultants for 1 – 2 days per month to represent the Authority at monthly technical and commercial meetings of the PMT and report to the Authority progress, costs etc of the project. The consultant's role will be one of assurance for the Authority to ensure: -

(1) correct procedures are being followed by the PMT;

(2) relevant audit trails and documentation are in place;

(3) planned targets are met

(4) costs are kept within agreed and approved budgets;

(5) The Authority are kept informed of project progress;

The Authority is currently developing a memorandum of understanding with NIE in order to encapsulate the high-level strategy, roles and responsibilities of taking forward the work associated with the demolition of BWPS.

7. Licensing

All the information required to obtain a licence in NI including a specimen application form is now available on our website. During the year 2003 - 2004 a new generation licence was issued to Altahullion Wind Farm Ltd and one other Windfarm Generation Licence and a Second Tier Supply Licence were in process.

It is hoped to finalise a standard bespoke wind farm generation licence in the very near future.

8. Climate Change Levy Administration

The Finance Act 2000 introduced the CCL and gave the Authority responsibility for accrediting renewable generators, administering and monitoring the exemptions claimed and issuing Levy Exemption Certificates. The cost of administering this scheme is recouped from central government by way of an addendum to the Spring Supplementary estimates each year.

9. Consumer Representation

The Energy Order transferred responsibility for looking after the interests of consumers of electricity and gas to the GCCNI. The Order also abolished the Northern Ireland Consumer Committee for Electricity (NICCE) and the Group established by the GCCNI in connection with the exercise of it's functions in relation to the supply of energy (excluding electricity) and replace both organisations with one group dealing with energy.

The Authority collected and passed on to the GCCNI the sum of £269,383.00 being the estimated amount required by the GCCNI to carry out its functions under the Order.

The Authority still has retained responsibility for making determinations, for making and setting Overall Standards and Guaranteed Standards, conditions dealing with resale of electricity, approving Codes of Practice and publishing a report on NIE's performance in meeting its standards.

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PEN PICTURES OF THE CHAIRMAN AND NON-EXECUTIVE DIRECTORS OF THE NORTHERN IRELAND AUTHORITY FOR ENERGY REGULATION

The Offices of the Director General of Electricity Supply for Northern Ireland and the Director General of Gas for Northern Ireland were abolished on 31 March 2003 and replaced by the Northern Ireland Authority for Energy Regulation, a body corporate empowered under the Energy Order to independently regulate both the electricity and gas industries on behalf of the Crown.

DOUGLAS McILDOON

Mr Douglas McIldoon, who previously held the posts of Director General of Electriticy Supply for Northern Ireland and Director General of Gas for Northern Ireland, was appointed as the full time Chairman of the new Authority.

JOHN FITZGERALD

Professor Fitzgerald has published widely on the economics of energy and on macro-economic policy. He is responsible for the Energy Policy Research Centre in the Economic and Social Research Institute in Dublin and holds a public appointment in the Republic of Ireland as well as an appointment from the EU Commission. Professor Fitz Gerald lives in Dublin.

PETER LEHMANN

Peter Lehmann is the Chairman of the Energy Saving Trust, a partnership between Government and the energy companies to promote energy efficiency and cleaner transport. He is also Chairman of the Government's Fuel Poverty Advisory Group. He is a non-executive member of the Board of the Disability and Carer's Directorate [Government Services for the disabled], and Chair of its Audit Committee. He is also Chair of Greenworks, a social enterprise, which sells furniture, no longer needed by businesses, to community organisations at low prices.

He worked for British Gas for 25 Years ending up as commercial Director and member of the Board of Centrica until the end of 1998.Mr Lehman lives in London.

CHARLES COULTHARD

Mr Coulthard was Managing Director, Scotland of Ofgem (GB energy Regulator's office) until his retirement in 2002. Previously he was Deputy Director General of Ofreg in Northern Ireland from the privatisation of electricity in 1992 until 1999. He is Chairman (unpaid) of Community Energy Partnership (Dundee) Ltd., a Scottish Executive and utility funded "not for profit" company which aims to cut the level of fuel poverty in Dundee. Mr Coulthard lives in Scotland.

MRS JOAN WHITESIDE OBE

Mrs Whiteside was Chairman of the General Consumer Council for Northern Ireland from 1997 until 2002, and first of the Northern Ireland Consumer Committee for Electricity from 1992 to 1997. She holds the following public appointments: General Commissioner for Income Tax; Member of the VAT Tribunal; and Member of the Tribunal for Admission to Schools and also Expulsions. She is Vice Chair of the Board of Strathearn Grammar School, Belfast.Mrs Whiteside lives in Belfast.

JOHN GILLILAND

John Gilliland, the immediate past President of the Ulster Farmers Union, is managing partner of a farm estate in Co. Londonderry. He is the Chairman of Rural Generation Ltd and a charity 'Rural Support'. He holds the following public appointments: Commissioner, Agriculture & Environment Biotechnology Commission; Commissioner, Londonderry Port & Harbour Authority; Member of Northern Ireland Economic Development Forum; and Member of Northern Ireland Food Strategy Group. He declared that he ran for European Parliament Election in 2004 as an independent candidate. Mr Gilliland lives in Co. Londonderry.

appendix 2

CONSULTATION PAPERS ISSUED DURING THE PERIOD OF THIS REPORT

27 January 2004
Consultation on Draft licence conditions required for the Implementation and Operation of a Postalisation System for Natural Gas Transmission Tariffs in Northern Ireland.

27 November 2003
Consultation on Northern Ireland Authority for Energy Regulation "Forward Work Plan for Financial year commencing 1 April 2004".

08 July 2003
Consultation Paper on Payments for Generation Capacity.

08 July 2003
Consultation Paper on Interconnector Allocation Arrangements 2004/05.

27 June 2003 - Gas
Consultation Paper on the Implementation of the Postalisation System for the Northern Ireland Gas Transmission Network.

PRESS RELEASES ISSUED DURING THE PERIOD OF THIS REPORT

16 March 2004 - Electricity
The Northern Ireland Authority for Energy Regulation announces outcome of the 2004 Non-Fossil Fuel (NFF) auction.

5 March 2004 - Gas
The Northern Ireland Authority for Energy Regulation proposes modifications to Premier Transmission's gas conveyance licence.

5 March 2004 -Electricity
The Northern Ireland Authority for Energy Regulation oversees invitation to bid in the Non-Fossil (NFF) Auction 2004.

27 February O4 - Electricity
The Northern Ireland Authority for Energy Regulation sets out its views on NIE's price increases.

26 February 2004 -Electricity
The Northern Ireland Authority for Energy Regulation publishes details of Further opening of Northern Ireland Electricity Market.

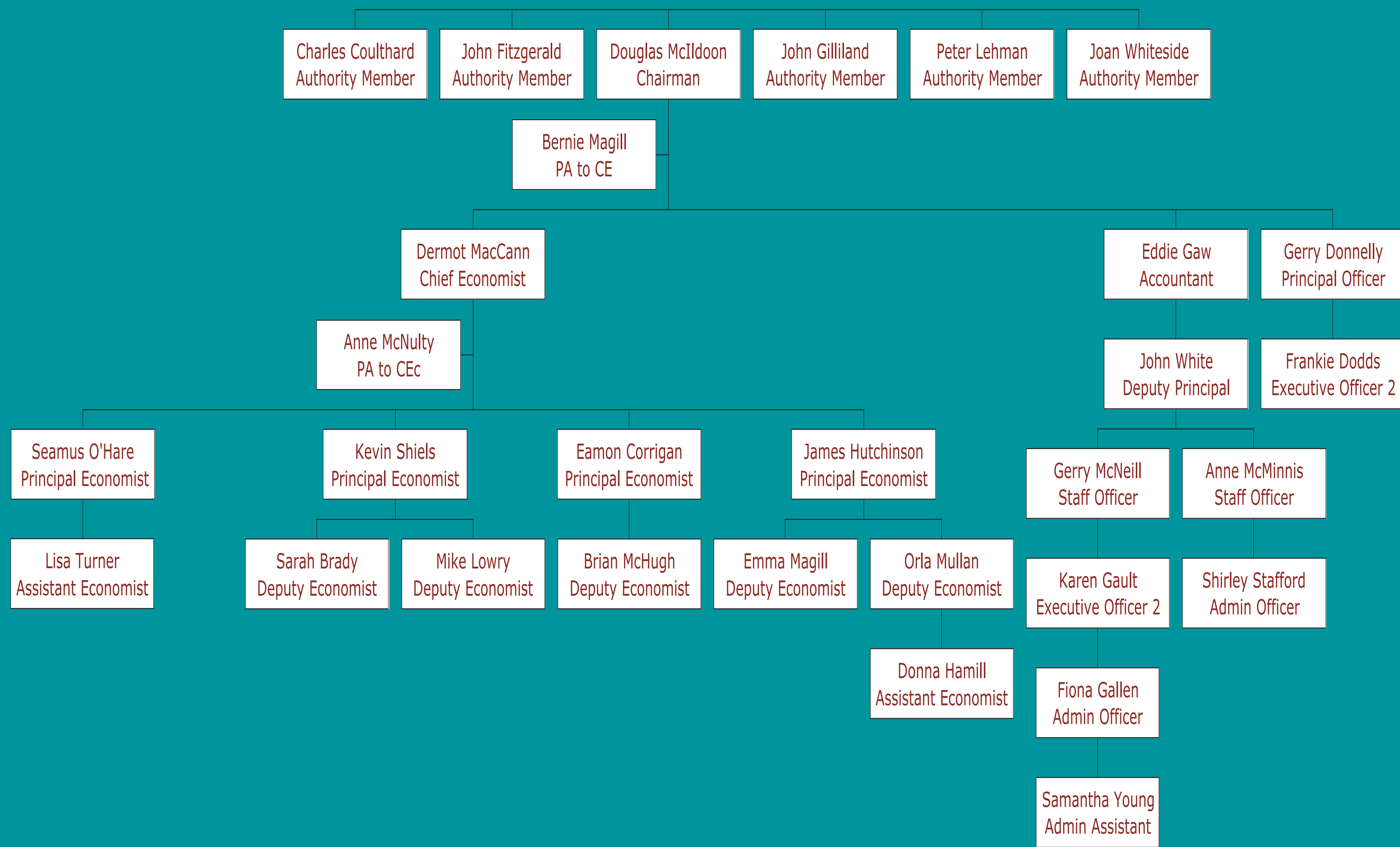
27 January 2004 - Electricity
The Northern Ireland Authority for Energy Regulation invites comments on it's Forward Work Plan for 2004.

14 January 2004 - Electricity
The Northern Ireland Authority for Energy Regulation introduces further opening of the Electricity Market to competition from 1 April 2004.

NOTE: All of the above Papers are available on our website.

appendix 3

NIAER Organisation Chart



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