



THE UTILITY REGULATOR'S PROPOSALS FOR THE 2013
POWER NI SUPPLY PRICE CONTROL

AIRTRICITY RESPONSE TO
THE UTILITY REGULATOR

OCTOBER 2013

INTRODUCTION

Airtricity welcomes the opportunity to comment on the proposals for the 2014 Power NI Supply price Control.

Airtricity is the largest independent supplier operating in Ireland with over 800,000 customers served across both electricity and natural gas markets. Airtricity is committed to the development of competition in energy markets in Northern Ireland and to presenting its customers with choice and quality customers services.

GENERAL COMMENTS

There are a number of key proposals set out in this consultation surrounding the activities and costs associated with the Power NI business. Of particular note is the decision by the UR to appoint expert consultants to assist in analysing and determining what the appropriate costs associated with the regulated business should be. Airtricity welcomes the input that has been given by the consultants as this has led to a clear, more detailed and better quality price control document. It is easy to understand the reasoning behind the proposals which is important to ensure transparency for all market participants.

Qs1

Airtricity does not have a view on this question.

Qs2

Airtricity does not have a view on this question.

Qs3 The UR proposes to retain the Power NI price control for Non-Domestic customers consuming 0-50MWh or less per annum and remove coverage for those consuming 50-100 and 100-150 MWh pa. Do respondents agree with this proposal and if not, please explain your rationale?

Airtricity welcomes the clear guidance given by the UR with respect to market dominance and the consideration of market share on a combined basis with respect to Power NI and Energia. We consider this appropriate given the ties between the businesses and the guidance available. However, Airtricity is concerned that the decision to reduce the threshold for regulation to 50 MW is premature, in particular given the upwards trend in market share identified by the UR in its consultation paper. In order for the UR to ensure that competition is effective, the reduction in market share and move away from dominance must be sustained.

Airtricity notes the decision taken in January 2013 to allow Power NI to aggregate sites under 150 MW and offer them deregulated tariffs. In its analysis the UR points to the increase in market share by 4% over the seven months preceding the consultation. Airtricity considers there to be a direct correlation between the decision to deregulate these sites and that increase in market share. We are concerned that this indicates that once deregulated, it is the intention of Power NI/ Energia to return to a dominant position. We believe it would be appropriate for the UR to indicate a sustained downward trend in market share should be shown prior to deregulating the market to the level proposed and that in advance of setting the date for deregulation that data up until the month preceding the date for deregulation should be reviewed to ensure that the position has not changed. The UR has proposed the date of 1st April 2014 to deregulate the market to

50 MWh. Airtricity believes it would be appropriate to consider the available information to 1st March 2014 before proceeding with deregulation.

In addition to determining the criteria for deregulating the market, Airtricity also considers it appropriate for the UR to issue the criteria it will monitor to ensure the effectiveness of competition and the steps it will take in the event it is found that Power NI/ Energia return to a position of dominance with over 50% market share in these customer categories. Without clear guidance on these issues, in the event that this occurs, this could have considerable negative impact on competition and delays in appropriate action being taken.

Separately, while we welcome the recognition the UR has given to the continuing position of dominance held by Power NI in the domestic market, we note that Power NI have recently commenced a door to door win back campaign for domestic customers. Given the submission made by Power NI in relation to the negative financial impact competition is having on its business and the increased allowance the UR is proposing to allow Power NI, Airtricity questions the appropriateness of this campaign and where the costs associated with this campaign are coming from. Airtricity considers it inappropriate for the UR to increase Power NI's margin where any costs are going to be used to directly work against the development of competition and increase or retain Power NI's market share in the domestic market.

QS 4 DO RESPONDENTS BELIEVE A PRICE CONTROL PERIOD OF 3 YEARS IS APPROPRIATE?

Airtricity considers this to be appropriate.

QS 5 DO RESPONDENTS AGREE WITH THE UR'S PROPOSALS FOR THE ALLOWED LEVEL OF OPERATING EXPENDITURE FOR POWER NI?

Airtricity is unable to determine the appropriate level of operating expenditure for Power NI, however we welcome to involvement of independent expert consultants in reviewing and determining the appropriate level of costs allowed. This provides a level of assurance and transparency to the process.

With respect to the specific proposals contained in the consultation, Airtricity welcomes the principle now proposed by the UR to allow Power NI to recover unknown 'Supplier Obligation Costs', following scrutiny. Over the last two years the UR has embarked on an extensive process to transpose the third package into industry licences which has led to significant costs being levied on suppliers. While the opportunity to submit known costs is afforded to a regulated business during a price control setting process, it is inappropriate for the regulatory body to expect that unknown costs would be disallowed on the grounds that this opportunity was given. This principle puts in place a method to recover these costs as they arise.

In moving to an RPI-X approach to regulating Power NI, we see that the UR wishes to be consistent with the approach taken to the Airtricity Gas Supply price control.

Airtricity welcomes the proposal for consistency and considers this to be important to ensure that all regulated businesses are treated on the same basis

Qs 6 Do respondents agree with the UR proposals for the allocation of the proposed allowed level of OPEX for Power NI?

Airtricity supports the proposals set out in the consultation paper.

Qs7 Do respondents agree with the proposed margin of 2.2%?

Airtricity welcomes the opening of discussions around what is an appropriate margin and the recognition that in choosing to operate in the NI energy markets, suppliers face levels of risk which require a minimum level of return in order to be sustainable. In examining what the appropriate level of margin should be for the business, the UR engaged experts in the area, looked to regulatory precedent and examined benchmarks. We welcome this approach. It is interesting to see that the minimum margin identified as appropriate by both the consultants and the UR was 1.7%.

The paper recognises the volume risk associated with hedging in the context of a decline in market share, the risks associated with an asset-light business and the impact overall that declining market share has on recoverability of allowed revenue. These are clearly issues experienced by all incumbent regulatory businesses as competition develops.

Qs 8 Do respondents view the apportionment of the S_t allowance on a 70% fixed: 30% variable basis to be an appropriate calibration for amending the allowed OPEX and margin as customer numbers increase or decrease?

Airtricity supports this apportionment on the grounds it reflects the actual costs incurred by the business.

Qs 9 Do respondents continue to believe the existing structure and form remains appropriate for the next price control?

Airtricity agrees the existing structure and form are appropriate. In particular Airtricity recognises the transparency of the methodology behind the price control. It is quantitative rather than just qualitative.