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1 October 2010

Dear Leigh

NIAUR RP5 Strategy Paper

Please find below a number of comments from CBI Northern Ireland on the Fifth Price Control for NIE's transmission and distribution assets.

General Comments

- The CBI welcomes this early consultation with the intention of raising key issues which may impact on the RP5. Without commenting on the technical aspects of price control we strongly believe that appropriate incentive mechanisms should continue in RP5 to improve operating and capital expenditure efficiencies as well as ensuring that there is an appropriate focus on customer services and needs.
- DETI's Strategic Energy Framework published last week notes that an estimated £1bn of investment will be required to strengthen the electricity grid to support the Department's 40% renewables target. This investment appears to be a key priority to be addressed in the new price control – this is an ambitious goal and will clearly not be achieved without adequate and timely investment in the electricity grid.
- Investment of this scale will have a material impact on electricity prices – as indicated in the Strategic Energy Framework, while the extent of the benefit of reducing Northern Ireland's reliance on fossil fuel costs will clearly depend on the movement of international fuel prices. There must be strong incentives around this investment to ensure that the programme is delivered in the most cost effective manner. A key priority should be the development of a detailed plan of how the T&D network can be developed using both the low and high voltage network to achieve the renewable target (and taking account of the need to increase renewables further post 2020).



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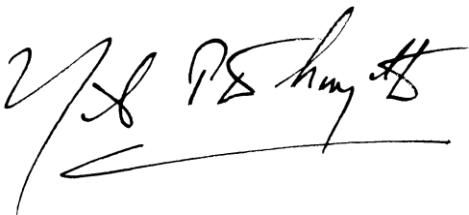
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- The grid investment for renewables will involve the construction of new high voltage overhead lines. The recent announcement that the proposed new interconnector between NI and the RoI will be subject to a planning inquiry suggests that there will also be a lot of ongoing uncertainty around the timing of the investment for renewables, so it is not clear how shortening the length of the transmission price control to three years would resolve the uncertainty issue. Indeed, shortening the period of the transmission price control to three years may even weaken incentives. It is also unclear how the 'learning experience' from a much shorter control period could be built in to the following control period – indeed the evidence from the current consultation paper suggests that this would be very difficult.
- Section 6.7 notes that that recent turbulence in financial markets has led to increased uncertainty and volatility in financial markets. While this is true we would be surprised if financing T&D assets with regulated (and guaranteed) income streams did not continue to be an attractive investment for financial institutions. We welcome the commitment to consult further on financing options. Consumers will want assurances that any radical changes to financing structures, such as a highly geared (mutual) model, for financing this new grid investment would be more cost effective than the existing equity model. Important questions will need to be answered:
 - how much risk would need to be transferred to customers?
 - how would incentives work?
 - is there a successful track record of mutualising strategic infrastructure assets of this type and scale?
 - would lower costs be guaranteed?
- We welcome the increasing commitment to focus on smart grid/smart metering and believe this will have an increasing part to play in the future. We strongly support the roll out of smart metering as part of RP5, and the trial of a smart grid during this period as well.

I hope these comments are useful.

A handwritten signature in black ink, appearing to read 'Nigel PE Smyth', with a long horizontal flourish underneath.

Nigel PE Smyth
Director, CBI Northern Ireland