

NI 14 08

Response to Utility Regulator's consultation on the development of its 5 year Corporate Plan

Introduction

- 1 CBI Northern Ireland welcomes the opportunity to comment at an early stage on the development of NIAUR's five year Corporate Plan. The document is comprehensive and illustrates that the multiple challenges and issues which need to be addressed are significant across the Regulator's three main areas of responsibility, namely electricity, gas and water.
- 2 As a general comment we are struck by the particularly strong focus on the social issues, yet we believe the international competitiveness all our businesses which are significant users of electricity, gas and water (includes ICT companies as well as manufacturers) are fundamental to maintaining a prosperous economy offering high levels of employment. The Executive has put the economy central stage, but this does not appear to be reflected in the consultation document. Without achieving this goal, many more people will experience fuel poverty directly through unemployment. While accepting the importance of addressing social issues, and particularly fuel poverty, we believe the latter issue is the Executive's primary responsibility, rather than the Regulator.
- 3 In the paragraphs below we have commented, where appropriate, on the key questions which have been raised in the consultation document.

The challenges

- 4 This section sets out the tone of the document content which follows. A number of important key challenges are identified, but what is missing is the recognition of the importance of providing internationally competitive priced electricity, gas and water services. This is of paramount importance. As globalisation continues, and potentially accelerates, it is vital that Northern Ireland can offer customers competitively priced services. Where effective competition cannot be achieved or is imperfect it is vital that the lowest cost solutions/investments are realised. For example, in the SEM, NIAUR should continue to seek to address the issue of market power to ensure effective competition exists. Similarly, NIAUR must continue to monitor the value/cost arising from the legacy power purchase



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agreements and if they are not providing value for Northern Ireland customers but are adding to the cost burden, then NIAUR should seek to exercise their contract cancellation rights.

- 5 The only other comments we would add is the recognition that there needs to be an appropriate balance across the challenges identified, while it is important within the regulated utilities that cross-subsidisation is minimised, and that all tariffs are cost-reflective.

The opportunities

- 6 We welcome the opportunities identified in the document. We would have preferred to see a stronger focus in this section on the opportunities to improve our international competitiveness, or at least have this drawn out as a central theme. A key issue over the next decade or so will be the development of renewables at least cost – a better understanding of the likely impact of renewable (and principally wind generation over this period) is required against various fuel price scenarios. As a general comment greater transparency, together with more forward looking profiles of key controllable costs (which the Regulator has responsibility for) is required by consumers who wish to make more informed decisions. This should be much more straightforward with water/sewerage charges.
- 7 We support the need for Northern Ireland to be agile, and responsive to opportunities as well as learning from other regions – but this will required joined-up government and the Regulator will have to ensure there are effective communications and relationships with all key departments. We also welcome the recognition that Northern Ireland needs to remain at the fore with regards technology developments.

Context Issues

- 8 The consultation paper identifies several 'context' factors which will influence the work and strategic direction of the NIAUR's corporate plan. We agreed with the broad thrust of these but would add the following comments:
 - **Rising prices to consumers are a major concern**, and most economic forecasters are predicting that energy wholesale prices (oil, gas, and coal) will remain high (and volatile). As we have stated below a better understanding of the impact of a significant shift to renewables is required set out against a number of scenarios for fuel prices – early progress on this would be helpful. This also needs to capture the risks from currency movements as NI is effectively buying its energy from one pool (the SEM) , denominated in euros
 - **All-island energy developments** – we agreed that this will be a key aspect of the corporate plan. We believe the cost effective development of the transmission grid across the island will be a key determinant in assisting the development of the renewable market – there is potential

here to strengthen the network to the west of the Province along the line of the new road improvements on the A5 and M1-Ballygawley routes. This will need a joined-up approach from government.

- **Water and sewerage regime** – CBI members are convinced that over the five year period of the corporate plan the efficiency of water/services must be the key priority – we do not believe that ‘*facilitating competition*’ should feature in the NIAUR’s work programme at this stage. Also business customers are very interested in forward visibility of tariffs to enable more effective planning. With a c£3bn capex programme predicted over the next decade customers will want to be assured that the investment is essential, and that all synergies with existing customers have been realised
- **Environmental sustainability** – most of this is covered in the earlier section under various EU Directives
- **Technological and information advances** – we believe this will be a key area, with opportunities for greater demand management across all customer categories
- **Gas extension** – CBI remains strongly supportive of seeking mechanisms to incentivise the further extension of the natural gas network, with mid-Ulster area a prime target. Again scenario planning would help understand future economics (which may favour a quicker roll out of gas) – so this issue should be kept under regular review.

Longer term issues

- 9 The 2020 issues table is helpful in setting out some of the longer term influences which do need to be considered in the short/medium term. In addition to the list set out to stimulate discussion we would suggest two other issues need to be considered:

- How the SEM will interface with the larger GB market as interconnection is strengthened – this is in the context of a bi-lateral GB market and a wholesale pool in the SEM market
- Interconnector costs – over the next decade these could become substantial – a greater understanding of who pays and how they pay for these major pieces of infrastructure (which must clearly be linked with who benefits)

Wholesale, network and retail issues

- 10 Chapter 4 sets out the potential strategic themes and priorities. We agree with the overall approach and priorities identified. The only comments we wish to make are as follows:

- **Wholesale** – we accept the key issues/priorities highlighted as the key issues and have not identified any other significant issues. We welcome the recognition that in the short-term the need for greater levels of market

liquidity and hedging options is essential. As stated above some scenario planning would be beneficial as regards the impact on the fuel mix and the development of renewable. There is also a need to review the merits of developing further interconnection with GB.

- **Networks** – the five broad themes identified in this section are comprehensive and all have significant merit. The issues raised around sustainability and particularly the need to strengthen the grid to accommodate significant renewable generation needs to be given priority, while extension of the gas network should also remain under review.
- **Retail** – we have already submitted views to NIAUR on the development of retail competition. As a relatively small market we need to take a cautious and pragmatic approach to retail competition, and we must avoid adding disproportionate costs onto a system already burdened – a focus on achieving a more competitive wholesale market is likely to deliver bigger benefits to customers. We do believe metering issues should be to the fore (partly to ensure that customers are exposed to more cost-reflective pricing especially those with erratic demand profiles). Fuel poverty is clearly a concern, but we do believe the Executive should have primary responsibility here.

CBI Northern Ireland
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