

CONSULTATION ON ELECTRICITY AND GAS RETAIL MARKET COMPETITION IN NORTHERN IRELAND

Dear Ms Ardines

ESB Group welcomes the opportunity to respond to this consultation. The development of enduring energy retail competition in Northern Ireland is of significant importance to energy users in Northern Ireland and the wider economy. Given that it is intended that wholesale and retail markets in Northern Ireland will become increasingly harmonised with those in the Republic of Ireland, it is important that a clear distinction is drawn between those issues that should most properly be taken forward within an all-island review, and those that can be taken forward within Northern Ireland alone. Our comments are directed towards identifying the issues that should be taken forward within an all-island context. In addition, we raise a number of other issues that are relevant to the development of retail competition in the all-island market that have not been raised in the Consultation Document.

All-Island Issues

Table 4 (pg 28/29) of the Consultation Document summarises the key barriers to the development of retail competition, which leads to the set of policy options set out in Chapter 5. We discuss the barriers, and the policy mitigation, under the two main headings of market structure and regulatory regime, where these wider market issues apply.

Market structure

ESB welcomes further moves towards synchronisation of the markets in the north and south and will work together with the regulatory authorities to enable this. In this regard we are also aware that this is a Strategic Goal in the *All-Island Energy Market Development Framework* document presently under revision.

In relation to liquidity, the Single Electricity Market has only been recently introduced, and a full set of contractual/hedging instruments have yet to be developed. In ESB's view, it would be an error to intervene in this market whilst it is still in its infancy. Instead it would be preferable to monitor the development of market liquidity over time, and its consequential impacts on price transparency and volatility, which may in turn impact on entrant decisions. This view is reinforced by the absence of any evidence cited in the Consultation Document that the absence of liquidity has acted as a barrier to the development of competition (as opposed to the proposition that it could have such an effect).

Regulation and Competition

Whilst NIAUR has responsibility for the regulation of NIE's generation and retail supply businesses, it is the case that its observations and policy developments on those matters can strongly influence the direction of regulatory policy applied to ESB's generation and retail supply businesses in the Republic of Ireland. Consequently, we have a particular interest in the on-going discussions on the regulatory regime to be applied to NIE. In that context, we would wish to make the following points.

First, the regulatory regime goes far wider than the *K* factor and the scope and structure of the retail price control. The regulatory regime is also made up of ring-fencing, public service, economic purchasing, supplier of last resort and universal service obligations as well as imposed standards of performance and the recording and reporting of same.

Second, we would expect any assessment of the impact of regulation on the development of retail competition to consider this regulatory package as a whole, rather than particular aspects of the regime – such as the *K* factor and the level of margin. Otherwise the regulatory policy options that emerge risk creating new distortions in the market.

This is a particular concern for ESB since many of the regulatory instruments listed above (such as ring-fencing) are also rigorously applied in the Republic of Ireland. We would, therefore, caution against a simplistic read-across from the regulatory options being debated in this consultation document to the regulatory instruments that could be relevant in Ireland.

For these reasons, in ESB's view, the future direction of regulatory policy applied to both PES businesses should be harmonised, consistent and proportionate and should take account of the entirety of the regulatory obligations imposed on the businesses when assessing the options for change. Once this has been undertaken, the case for removing the *K* factor is open to question unless also accompanied by the removal of other restrictive regulatory obligations (such as ring-fencing restrictions, for example).

We also note the recent initiative by Ofgem to tackle unnecessary complexity and increase transparency in the process for making changes to industry codes by which industry players participate in the market and connect to energy networks. By tackling this issue, Ofgem hopes to make it easier for smaller suppliers and renewable generators to participate in the market and thereby boost competition. Better regulation benefits will also accrue. We would also support a similar initiative in the all-island context.

As you may also be aware, ESB is currently participating in a smart metering pilot project with the aim of proving the benefits that such technology can bring to the customer and the market. In the context of this paper we suggest that a harmonised approach to smart metering deployment should also be considered as an enabler of retail competition in the all-island market.

I would like to thank you for the opportunity to contribute to this consultation process. We hope that you will find our comments helpful and they will contribute to the progression of the discussion on the harmonisation of retail markets on an all-island basis.

Yours sincerely

Fergal McNamara