

Removal of Subsidy for New Domestic and Smaller Business Connections

Decision Paper

05 April 2012

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Executive Summary

1. Having considered the responses from Utility Regulator's consultation on 15 November 2010 and the implications for RP5 the Utility Regulator approves the removal of the connections subsidy for domestic customers and small businesses from 1 October 2012.
2. In approving the removal of the connections subsidy for domestic customers and small businesses the Utility Regulator determines that offers for connection requested before 1 October 2012 and made before 1 January 2013 will receive this subsidy as long as they are completed by 1 October 2014.

Background

3. NIE is required by Condition 32 of the Licence to prepare a statement approved by the Utility Regulator (The Statement of Charges for Connection to the Northern Ireland Distribution System) setting out the basis upon which charges will be made for connection to the distribution system.
4. The current charging methodology in the Statement of Charges produced by NIE provides information for domestic customers and small business that require a new connection. The provisions for this group of customer, who are neither an over 1MW customer nor an authorised generator, is identified in section 5.1 of the statement. Any customer in this category wishing to connect is required to pay 60% of the estimated cost of installing new and/or modified Connection Assets.
5. While this subsidy was considered to be appropriate for the initial electrification of Northern Ireland and served to deliver the wider social benefits associated with a supply of electricity to homes and small businesses, there are now requirements on regulators to ensure that charges to customers are cost reflective.
6. Given the extent of the distribution system within Northern Ireland today, it could be argued that the electrification policy has been delivered and that the circumstances that required a subsidy no longer exist.
7. The removal of the subsidy will reduce the costs paid by consumers. It ensures the full costs are paid for by the parties benefiting from the connection.

Utility Regulator Consultation

8. On 15 November 2010 the Utility Regulator published its consultation on Electricity Connection Policy to the Northern Ireland Distribution System¹.
9. The consultation closed on 10 January 2011 and a total of 24 responses² were received.
10. As part of this consultation the Utility Regulator proposed that, in order to promote cost reflective charging and to encourage connections at the points of the network that

¹http://www.uregni.gov.uk/uploads/publications/Consultation_on_Electricity_Connections_to_the_NI_Dist_System_Vfinal.pdf

²http://www.uregni.gov.uk/news/responses_ni_distribution_system_connection_policy_consultation_15_nov_2011/

require the least construction of new assets, the 40% connections subsidy be removed from the start of RP5.

Next Steps Paper

11. On 10 May 2011 the Utility Regulator published its Next Steps Paper on Electricity Connection Policy for the Northern Ireland Distribution System³.
12. Of the 24 responses to the consultation paper 7 specifically commented on the on the removal of the 40% subsidy. 3 considered it appropriate to remove the subsidy and 1 did not. 3 called for the subsidy to remain in some form.
13. It was proposed that the Utility Regulator considers removing the 40% connections subsidy from the start of RP5.

RP4 and RP5

14. NIE's current price control RP4 makes provision for the recovery of the 40% connections subsidy via its capital allowance. The depreciation of the assets is charged annually and a return on the capital is paid at the rate specified for distribution system assets. Customers on DUoS tariffs for demands greater than 1MW do not contribute to the subsidy. In addition the subsidy is recovered from the remaining distribution demand customers according to their DUoS tariff type.
15. For NIE's next price control RP5 the net connections for domestic and small businesses forecasted by NIE T&D, to be added to the regulated asset base of £1bn, is £57.6m. The Utility Regulator accepts that there will be a transition period were NIE install the connection assets associated with connection offers already made. Accordingly there will still be a need for some further additions to be included in the asset base. This amount has yet to be determined but will only include connection offers received before 1 October 2012 and issued before 1 January 2013. Any new connection offers issued after 1 October 2012 will be based on this revised connection policy.

Decision

16. Having considered the responses from Utility Regulator's consultation on 15 November 2010 and the implications for RP5 the Utility Regulator approves the removal of the connections subsidy for domestic customers and small businesses from 1 October 2012.
17. In approving the removal of the connections subsidy for domestic customers and small businesses the Utility Regulator determines that offers for connection requested before 1 October 2012 and made before 1 January 2013 will receive this subsidy as long as they are completed by 1 October 2014.

Next Steps

18. The Utility Regulator will instruct NIE to submit for approval its revised Statement of Charges for Connection to the Northern Ireland Distribution System and for the decision detailed above to come into effect on 1 October 2012.

³http://www.uregni.gov.uk/uploads/publications/Next_Steps_Paper_on_Electricity_Connections_to_the_NI_Dist_System_V_final.pdf