

UR NEWS

£210 million of efficiency savings clocked up for Northern Ireland consumers

At the launch of our 2009-10 Annual Report on 8 September, we announced that our scrutiny of energy and water companies had secured £210 million of efficiency savings for Northern Ireland energy and water consumers since 2006.

Speaking at the launch, Professor Peter Matthews, Chairman of the Utility Regulator, said:

"Our job is to act as an independent, expert regulator for Northern Ireland consumers. Protecting their interests means that we relentlessly challenge utility companies in Northern Ireland to make sure that their costs are as low as possible. Our scrutiny since 2006 has saved at least £210 million of costs that may otherwise have been passed on in higher bills for consumers."



Peter Matthews

No change to electricity and gas prices

In September we welcomed the news that both NIE Energy Supply and Phoenix Supply Ltd will make no change to their prices from 1 Oct 2010.

Chief Executive, Iain Osborne said:
"Given the ongoing volatility in the wholesale energy market, no change to electricity prices is a welcome outcome for households. I am conscious of the broader context where underlying wholesale prices are unstable, but have trended upwards in recent months, and electricity prices are going up in the Republic of Ireland and in some parts of GB.

"The decision by Phoenix Supply Ltd to leave prices as they are is a good outcome for consumers, especially as higher inflation puts further pressure on household finances. This means that gas customers in the Greater Belfast area continue to pay a lower standard gas tariff than the Republic of Ireland, and this is among the lowest in the UK.

On the future outcome of prices he said: "While the announcements are good news, the future for electricity and gas prices remains uncertain and indeed there is some evidence that wholesale energy costs will rise, raising the prospect of future increases to consumer bills. We will continue to monitor the situation and scrutinise tariff proposals to ensure consumer bills are kept as low as possible."

Latest news...Latest news...Latest news...

New entrant to domestic gas market in Greater Belfast

firmus energy announced on 2 November that it was entering the Greater Belfast domestic gas market. The announcement is welcome, and we have worked hard with firmus energy to make choice a reality for customers. During the initial testing period, the number of customers able to switch will be limited, however this will increase as the systems are tested. In addition, we will continue to work with the energy industry to ensure that systems are in place to allow pay-as-you-go customers to start switching in early 2011, ensuring that all customers can benefit from competition by September 2011.

Iain Osborne's welcome

Welcome to the first edition of our new quarterly ezine. Our work is often seen as complex and technical, therefore the aim of the ezine is to update and inform you on the key areas of our work. We would also hope that through the articles and information provided, you will gain a better understanding of the work that we do.



In this first edition, you'll be able to read about key news items, projects that we've completed and those that are still ongoing, and hopefully you'll learn a bit more about us too.

You will probably be aware that I am leaving the Utility Regulator in December to take up a board-level role with overall responsibility for UK-wide regulatory policy at the Civil Aviation Authority. I have been with the Utility Regulator for over four years, and not only have I thoroughly enjoyed this time, I am also proud of what the team and I have achieved.

The recruitment process for a new chief executive has begun and it is hoped my successor will be able to take up the position early next year if not before.

Once you have read the ezine, if you have any questions or comments, please feel free to forward these to adele.boyle@uregni.gov.uk. In addition, we have sent the ezine to you as we regard you as a key stakeholder, however, if you would prefer to be removed from the mailing list, please reply to this email with the subject as 'unsubscribe'.

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Developing competition

Kevin Shields, Acting Retail Director

Effective competition that can deliver real consumer benefits has long been and remains at the heart of the EU, UK and Northern Ireland vision of energy retail markets. In recent times, the Utility Regulator has actively pursued a policy of creating a fertile environment for greater electricity and gas supply¹ competition to emerge, particularly in market sectors where competition has been absent (households). That changed in June this year when Airtricity entered the domestic electricity supply market. This was a welcome and ground-breaking development, and we are hopeful of further entry into our energy retail markets by other suppliers in the short to medium term.

The statutory remit given to us places a high value on competition as a means to deliver consumer benefits. Competition is a key feature, particularly in electricity where it is our primary statutory objective 'to protect the interests of consumers...wherever appropriate by promoting effective competition'.

Consumer preferences also drive our policy. We have abundant anecdotal evidence that Northern Ireland consumers would like to have more choice of their energy supplier.

Beyond policy drivers, the current situation is that while there is a significant level of competition in both electricity and gas markets for business customers, household-level customers until recently have had no choice of electricity and gas suppliers.

Our overall philosophy in developing retail competition is to develop, change and where appropriate reduce the regulatory framework in a way that seeks to crystallise and maximise consumer benefit from competition. We contend that this can be achieved through maximising the degree to which the energy retail market is truly contestable and competitive. Competitive entry (or the effective threat of it) and customer empowerment are the engines that can realise the benefits of competition.

The benefits from greater energy retail competition might include:

- **Innovation** – new suppliers, with experience in other markets, are likely to bring to market different products that extend consumer choice. This will likely include 'dual fuel' options;
- **Service standards** – competitive pressures, combined with effective industry systems, should enable high service standards to be delivered flexibly and cost effectively. Regulation can only effectively set a single standard which might be the average of consumers' wishes, while competition can allow different supplier and product offerings to differentiate service levels, with prices varying accordingly; and
- **Downward cost pressures** – in the short term, from creating competitive pressure to reducing costs in supply, and to be more efficient in the procurement of wholesale energy. In the longer term, from dynamic efficiencies and improvements driven by competition at both the firm and sectoral levels.

Delivering truly contestable and competitive supply markets will be the driver for ensuring consumers benefit. But it is also important to emphasise that we are not 'blinker'

in our pursuit of enhanced supply competition. We need to move forward pragmatically and recognising the complexity of issues involved with delivering competition in a relatively small market like Northern Ireland.

As a guiding principle to future policy development, we believe that electricity retail competition can potentially deliver benefits for consumers, so long as it is: developed efficiently; delivers truly contestable retail conditions in all market sectors; delivers lower prices than regulation of the retail market would otherwise have achieved; and Northern Ireland consumers are empowered to fully engage with these markets. Thus our future regulatory approach and actions to currently regulated supply markets will be driven by evidenced emergence of contestability and competitive potential in our supply markets. An enhanced framework for energy retail marketing monitoring will thus be a key priority for us going forward.

In practical terms, our work in this area will centre on:

- delivering the necessary systems and processes to allow effective retail competition to emerge and full customer switching capabilities;
- facilitating new supplier entry;
- enhanced monitoring of energy retail markets to better understand contestability issues and customer experiences; and
- where necessary, optimising customer protection frameworks e.g. in terms of codes of practice for suppliers, transparency of information and billing and protection of vulnerable customers.

¹ We currently regulate the electricity and natural gas supply markets; not the home heating oil market



DETI publishes Strategic Energy Framework

The Minister for Enterprise, Trade and Investment, Arlene Foster, announced the publication of her department's Strategic Energy Framework (SEF) on 27 September.

The SEF sets out the key energy priorities for Northern Ireland over the next 10 years and identifies key energy goals in terms of building competitive markets, ensuring security of supply, enhancing sustainability and developing our energy infrastructure. A key aspect of the SEF is renewable energy targets. The SEF sets a target of 40% of electricity to come from renewable energy and 10% from renewable heat by 2020.

We will be working closely with the department on the implementation of the SEF in several areas, which include co-operation on smart metering, electricity network development, and arrangements for more readily ensuring customer switching between energy companies.

Dates for your diary

9 November:

Second annual Energy Retail Report published

Mid/late November:

NI Water 2007-10 Cost and Performance Report published

25 November:

Utility Regulator providing evidence to the ETI Committee inquiry on renewable energy

7 December:

Stakeholder workshop on Forward Work Programme

16 December:

Utility Regulator Board meeting

12 January:

Financing infrastructure conference

Consultations

Electricity license fee methodology

All electricity licence holders are required to pay an annual licence fee. This fee is calculated in accordance with a published methodology laid out in a determination document by the Utility Regulator. A permanent arrangement is required to replace the current temporary one. The consultation on electricity license fees considers options for a permanent methodology.

If you would like to respond to the consultation, please forward your comments to Simon Scott (simon.scott@uregni.gov.uk) by 5.00pm on Friday 26 November.

PC10 Update

One of our statutory duties is to protect water and sewerage consumers. We seek to do this by ensuring that NI Water invests smarter and more efficiently to deliver services that everyone can have confidence in.

PC10 (Price Control for 2010-2013) is where we set out our assessment of NI Water's revenue requirements for the three-year period. Throughout the process we consulted to clarify ministerial, consumer and statutory priorities; benchmarked NI Water's performance to inform efficiency targets; and linked funding to outputs to facilitate monitoring of performance.

As the majority of NI Water's income is from public funding, we worked with statutory stakeholders to agree the approach that we would take in regulating a publicly funded water and sewerage services company. The resulting agreement reached takes account of the public expenditure processes and constraints.



Regulator implementing major EU energy legislation

The Internal Market for Energy (IME3) legislation, aimed at liberalising markets in energy across Europe, became part of European Law on 3 September 2009. Member states have 18 months in which to implement the legislation (by 3 March 2011).

Key features of the legislation include: a requirement to unbundle networks from the competitive activities of generation (electricity), production (gas) and supply (both); increased independence for regulators from government and politics; a new European super-regulator (called the Agency for the Co-operation of Energy Regulators – ACER); enhanced status and revised objectives for those regulators designated as National Regulatory Authorities (NRA - we will be designated for Northern Ireland), a

new impetus given to infrastructure investments and the regulation of storage; increased priorities to expanding retail markets and improving consumer protection; and more pan-European co-operation.

We are working with the Department of Enterprise, Trade and Investment and others to implement this legislation by March next year. Future editions of UR News will provide an update on IME3 implementation.

Profile

Alan Rainey Non-executive Director



How long have you been with the Utility Regulator?

I joined the board in 2007 on a three year term and I have recently been re-appointed. I am also a member of the Single Electricity Market Committee appointed by the Ministers in Northern Ireland and the Republic.

What did you do before you became a board member at the Utility Regulator?

I began my career in the energy industry as an electrical engineer and since then, I have worked on the development and maintenance of electricity generation, transmission and distribution systems throughout Ireland and overseas. Until 2007 I was Executive Director of Northern Ireland Energy Holdings (now Mutual Energy). Before that, I had directed the Moyle Interconnector project. I worked initially for ESB in the Republic and then in Bahrain. I moved to NIE in the run-up to the restructuring and privatisation of the electricity industry in Northern Ireland.

The job of a non-executive director is...

... fascinating, challenging and quite a change from earlier roles. Being at a distance from the day-to-day business makes it easier to take a strategic view and bring wider experience to contribute to corporate decision-making. On the other hand, preparation for each board meeting is another

learning experience as the issues keep changing.

What do you feel are the biggest challenges facing the Utility Regulator?

As well as the continuing work in the interests of consumers to ensure value for money and customer service in the industries we regulate, there are a number of challenges arising in those industries. In electricity, the drive for a much higher proportion of renewable generation brings challenges. In gas, the ongoing work on developing the Common Arrangements for Gas holds out the prospect of benefits for consumers in cost and security of supply. In water, we face the challenge of continuing the improvements in supply quality and the efficiency of the industry while implementing whatever arrangements are put in place by the Executive. As a multi-utility regulator, we have the challenge and opportunity of further developing our ways of regulating.

How have you seen the electricity industry in Northern Ireland change since you began your career in the industry?

When I started in the industry, rural electrification had not been completed, so it was still possible to see the difference that electricity made in people's lives, before it became taken for granted as it is today. There was a public service ethos but

the industry in Northern Ireland was small and isolated from its neighbours on both sides and, in public ownership, was not as efficient as it could have been with consequent high costs to consumers.

In the years since then I have seen a lot of changes, some in the technology but more radically in the structure of the industry. We now have an industry with diversified forms of ownership but which is more integrated with its neighbours through physical interconnection and the electricity markets in which electricity is now traded, enhancing our security of supply. The changes in structure, including competition and regulation, have released a lot of creativity which has reduced the costs of the industry to a level which compares well with our neighbours. Through all the changes it seems to me that, by and large, the public service ethos has not been lost.

In my spare time I like to...

... get away to Lough Erne and further afield on the inland waterways of Ireland. Without going very far, it is a different world where time flows at another rate. I also enjoy reading and have been reading Barack Obama's "Dreams from my Father". Among other things, I have been impressed with the way he deals with his struggle with issues of identity, which have some resonance for our own society.

Price controls: the essentials

Price controls...

provide regulated companies with a level of revenue allowed (based on an estimate of costs), following scrutiny by us, that is enough to run an efficient business.

Costs covered include...

capital expenditure – spending on assets (such as overhead lines), operating expenditure – the running costs of the company (such as staff costs), and financing costs (the costs an efficient company would incur in providing a reasonable return to investors).

Encouraging efficient and prudent investment...

is a key outcome of price controls, so that consumers can benefit from a modern and high performing infrastructure.

Incentives for companies...

to offer good quality services to customers can also be provided through the price control process.

Analysis and assessment of a wide range of information provided by the company...

is a key aspect of our scrutiny. We also assess information from external sources (e.g. benchmarking reports).

Public consultation...

of our price control proposals takes place before we make any final decision.

In brief



Ambulance for a children's hospital in Uganda

Running up the miles for a good cause

At this year's Belfast marathon, Utility Regulator staff entered four relay teams, raising money for three different charities.

Members of our electricity and corporate affairs directorates raised £750 for a children's hospital in Uganda which went towards purchasing a much needed ambulance for the hospital. The Northern Ireland group for the charity was recently able to raise the funds to purchase an ambulance which was shipped to Uganda in late September.

The gas team raised over £500 for Africa Direct, while over £600 was raised by the water relay team for Northern Ireland Hospice.

Regulation and Competition Seminar

Our offices at Queens House was the venue for a seminar on 21 September, the first of its kind, to explore the topic of 'What do regulation and competition deliver for Northern Ireland's economy, business and consumers'.

The Office for Fair Trading led the event, which was organised in conjunction with a range of local businesses, economic and consumer organisations. Joanne Stuart, Chair of the Institute of Directors, chaired the event.

Around 40 participants drawn from business, consumer, regulatory and policy bodies attended the event. A key focus of the discussion was around exploring the benefits of different approaches to regulation and competition in both private and public sectors. The event was valuable overall as an opportunity to discuss and shape an initiative to support growth and competitiveness in Northern Ireland.

Utility Regulator manager speaks at major European conference

Tanya Wishart, Market Generation and Supply Manager in our electricity directorate, was invited to speak at the 12th annual Metering and Billing/ Customer Relationship Management European conference in Vienna on 21 September.

The conference is the annual gathering of energy specialists, and includes representatives from the top 100 utilities, regulators and government agencies from all five continents. Tanya took part in a seminar on the topic of Smart Metering security. Her presentation focused on our experience of the Smart Metering trials in Northern Ireland.

Reflecting on her participation at the event, Tanya said: *"The conference was a valuable way of keeping up-to-date with key developments in metering and billing across Europe. It also provided a good opportunity to say something positive about advances made in Northern Ireland about smart metering, and the Utility Regulator's proactive involvement in facilitating the trials."*

Peter Matthews awarded major European water industry prize

Utility Regulator board Chairman, Peter Matthews, was awarded the Dunbar Medal on 12 September at a ceremony in Munich. The medal, awarded by the European Water Association (EWA), commemorates William Dunbar – a pioneer in the field of wastewater treatment – and is awarded every three years.

The EWA said that "Peter Matthews was selected from a list of very strong candidates. He has been involved in the water industry for over 40 years. Prof Matthews is a true innovator and committed professional who has worked tirelessly to bring the industry together to share a global vision of water management".



Melanie Huml (Bavarian State Ministry of the Environment and Public Health), Peter Matthews, Ursula Heinen-Esser (Federal Ministry for the Environment, Nature Conservation and Nuclear Safety) and Jean-Philippe Torterotot (EWA President)