Further Market Opening in the Electricity Sector in Northern Ireland

A draft Decision Paper regarding Further Market Opening and the implementation of the EU Energy Directive (2003/54/EC)

Ofreg

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Chapter 1

Introduction and Background

Northern Ireland's electricity industry was privatised in 1992, with the generators being sold to private companies in 1992 and NIE's transmission, distribution and supply elements being floated on the stock market in 1993. The privatisation arrangements also allowed, in principle, for the development of supply competition. Theoretically any customer, including household customers, could purchase electricity from any supplier. NIE was also given a monopoly/monopsony position in that all power had to be sold to NIE's Power Procurement Business (PPB) and anyone wishing to supply a customer had to buy from PPB.

Privatisation was very much driven by UK Government policy at that time. However in 1996 the EU decided to progress the agenda of competition and a single European electricity market. The EU Directive (IME 1996/92/EC) required some customers, so called eligible customers, to be able to choose their own supplier. By April 2001, two years ahead of the requirements of the Directive, 35% of wholesale electricity demand was formally open to competition. In practice this means that, to date, approximately 700 of the largest electricity users in NI can buy from the supplier of their choice. These suppliers, in turn can buy from the generator of their choice on whatever terms they are able to negotiate.

The EU Directive has been amended and Directive 2003/54/EC now requires that by July 2004 all non-domestic customers should have the supplier of their choice and that by 2007 all customers should be able to choose their supplier in a market 100% open to competition (Article 21 Market Opening and Reciprocity).

To date market opening, in Northern Ireland has been implemented in the least cost way possible, and has not added significant costs to any customer category. Minimising cost is a key determining factor in any decisions made with respect to market opening in Northern Ireland. Unfortunately high electricity costs are a burden shared by both domestic and industrial customers in Northern Ireland and are a legacy from the way in which the generation sector was privatised.

Current Electricity Structure

The electricity market in Northern Ireland is currently divided into two distinct customer categories: (1) franchise customers and (2) eligible customers. Eligible customers are those free to choose their own supplier and there are at present approximately 700. Eligible customers may contract with a second tier supply licence holder, who in turn contracts with a generation source. These contracts are struck at a price agreeable to all parties and not a regulated price. Thus the section of the Northern Ireland market open to competition operates on a bi-lateral contract basis. A separate market exists for 55,000 non-domestic customers who are entitled to purchase a "green only" product. The Renewable Output Factor (ROF) market based on wind energy allows non-domestic customers to choose their green supplier. This market is growing rapidly and by December 2003 approximately 7,000 were buying green power. On the other hand, franchise customers are virtually all served by NIE Public Electricity Supplier (PES) using wholesale electricity purchased from NIE's PPB and there are currently around 670,000 such customers, who pay a regulated price for their electricity. Both NIE PES and NIE PPB are regulated businesses.

Northern Ireland currently has three indigenous generators, Ballylumford, Kilroot and Coolkeeragh. A new 600MW Combined Cycle Gas Turbine (CCGT) has recently opened at Ballylumford and the old plant at Coolkeeragh will close in 2005 when a new 400MW CCGT plant is due to be fully commissioned. The Ballylumford and Kilroot plants are contracted to NIE's PPB under the Power Purchase Agreements (PPAs) introduced at privatisation. These contracts will run to 2024 in one case but may be cancelled in 2010. However the Coolkeeragh CCGT will be a merchant plant, free to sell to any customer on whatever terms it can. The plants contracted under the PPAs currently serve the franchise customers, though some PPB electricity does find its way to eligible customers. The original PPAs comprise certain costs which would impose an increasing burden on domestic customers when the market opens to competition.

Currently 10 companies hold a second tier supply licence in Northern Ireland but not all are active in the market at present. Suppliers to the eligible sector are granted licences from Ofreg. However they are entirely responsible for their own pricing policies and contractual arrangements. Ofreg can only intervene if a supplier has breached one of its licence conditions, for example, by acting in an anti-competitive manner. A dispute over a contractual issue is not within Ofreg's remit.

In the medium term the stock of generation available to supply NI customers is fixed. There must be enough generation to satisfy customer demands as the eligible sector grows in numbers. Therefore some of the generation contracted under the PPAs to serve the franchise sector will need to become available to the eligible sector as the franchise sector gets smaller in size with each progressive round of market opening. Hence one fundamental imperative is to manage the costs embedded within these contracts until they expire (or can be cancelled by the Regulator at a specified date).

Further background on the NI generation sector is available in the following papers on the Ofreg website: "Competition and Customer Empowerment – the Next Steps in the Northern Ireland Electricity Market" (March 2003), and "Generation and Supply Competition in Northern Ireland: Power Procurement, Interconnection and the Competitive Market" (August 2002).

Interconnector Trades

At present the main source of generation to serve the eligible customers is Scottish delivered via capacity across the Moyle (NI-Scotland) interconnector. Moyle has a capacity of 400MWs of which 125MWs are contracted to PPB until 2007. NIE PPB sell energy equivalent to this contract on to the second tier supply market by auction (as directed and approved by Ofreg), so the entire Moyle capacity is available directly or indirectly to the eligible sector. Suppliers to eligible customers can obtain capacity across the Moyle interconnector by participating in an annual auction. Alternative sources of generation are available from RoI, renewables or CHP plant. These trades are not at a regulated price and are set as a result of a contractual agreement between the relevant second tier supplier and the eligible customer. The price which eligible

customers pay for electricity is based on the Scottish/England and Wales generation price offer (which is set in the market) and the price of securing the capacity across the Moyle Interconnector. However it is important to bear in mind that the willingness of generators in Great Britain to compete down their prices is heavily dependent on the price in the local market, and in the absence of competitive indigenous plant, this price is capped by the BST alternative minus the cost of interconnector capacity.

Indigenous IPPs

When the new Coolkeeragh plant is commissioned in 2005 it is expected to be Northern Ireland's only indigenous IPP. A number of old uncontracted generating units with low efficiency were active in the competitive market in 2001 but had to close down, as they were unable to compete largely due to the then high gas price and the commissioning of the Moyle interconnector. The level at which the Bulk Supply Tariff (BST) is set effectively caps the price which an indigenous IPP can charge.

Wholesale Tariffs and System Levies : Genesis of existing Levies

The NI electricity market prior to market opening under the first EU electricity Directive (96/92/EC : Internal Market in Electricity [IME]) was a single buyer structure. NIE's Power Procurement Business (PPB) bought all wholesale energy from the generation sector under long term contracts (PPAs) and derived a single wholesale tariff for sale to all suppliers, including the NIE Public Electricity Supplier. This Bulk Supply Tariff internalised all generation costs into a single sculpted and profiled schedule.

As mentioned earlier when the electricity industry was privatised, NIE's Power Procurement Business was given both a monopoly and monopsony position. A BST structure was established ie a published tariff was set to recover the cost of the long-term generation contracts. All generation was contracted to PPB and suppliers were obliged to buy at BST from PPB. Public Service Obligations (PSO) and System

Support Services (SSS) levies are charges on all customers (and include formerly bundled components of the Power Purchase Agreements – see below).

Electricity bills faced by customers, domestic or otherwise, are comprised of a number of components: the Bulk Supply Tariff (BST) or generation charge for eligible customers, PSO, SSS, use of system (UoS) charges and supplier margins. Whilst most of the components of the PSO and SSS charges remain unchanged year on year, the costs can vary; and components may be added or removed.

However as the electricity market has partially opened to competition as a result of the EU Directive the obligation to purchase BST now only applies to the domestic franchise customers and non-domestics who do not avail of the renewable market. Suppliers to eligible customers are free to buy from whatever source of generation they can make a contract with and at any price they negotiate. The price of renewable electricity is also unregulated and set in the market place. In practice PES tariffs set an upper limit and "green" suppliers normally sell at a discount to BST. In addition "green" customers do not have to pay the climate change levy which would otherwise cost them 0.43p per kW/h.

When the market opened to competition in 1999, PPB inevitably lost a share of eligible customers to second tier suppliers but its contract costs still had to be recovered. PPB has a portfolio of potential energy production greatly in excess of the needs of franchise customers. Therefore PPB makes sales to the eligible market and to the Irish Republic (as it is incentivised to do so under its current price control). As it also provides generation security and diversity for all customers, it is appropriate that certain cost elements which were recovered from all customers before liberalisation should again be spread across the whole customer base. This is the reason that some charges bundled into the original PPB contracts were classified with, in the advent of market opening, as PSO or SSS charges.

PSO levies cover, for example, "land bank" costs (ie maintaining central control of valuable power station sites, provisions for demolition and site clearance at Belfast West and Coolkeeragh Power Stations), setting up and providing financial support to the renewable market, acquiring additional generation to ensure an adequate plant

margin. These costs have been included in the PSO charge as they benefit the entire customer base and therefore the cost burden should not just be borne by franchise customers. The SSS charge comprises of, for example, ancillary services, transmission system operator costs, generation capacity payments, and "out of merit" running costs to provide north-west security of supply to agreed operating standards,.

PSO and SSS charges are permitted by Ofreg under the appropriate licence arrangements for a number of reasons, namely:

(1) they are necessary for the security of the Northern Ireland electricity supply (for example, system operation costs, acquiring short term additional generation capacity);
(2) they are required as a result of a legislative or licence obligation on the relevant licence holder/industry participant (for example, site clearance costs);
(3) they allow investigation into ways to ultimately reduce electricity costs and introduce further elements of competition into the Northern Ireland electricity market;
(4) they give effect to Government and EU policy of supporting renewables.

In the period following market opening in 1999 the approach adopted to the allocation of the system costs formerly bundled up in the PPAs and now collected through PSO and SSS levies has been pragmatic. It has been based on allowing the gains from liberalisation to flow to the traded sector provided domestic customers were made no worse off. With a 70% increase in the size of the eligible customer share of the market next year followed by full market opening in 2007 adhering to that approach inevitably means that a greater proportion of PSO and SSS levies must be raised from existing and future "eligible" customers since from 2007 there will only be "eligible" customers.

Chapter 2

Context of the Proposals

The electricity market in Northern Ireland must be opened fully to competition by 2007, and as an interim step must permit customer choice for all non-domestic electricity customers from July 2004. This is required by the European Union and is not a result of an Ofreg or Government policy decision in Northern Ireland itself. However it is within Ofreg and Government's control to ensure the EU requirement is implemented in the least cost way possible, consistent with the Directive.

There are a number of ways in which the electricity market could be opened to competition, and examples exist in other markets (cf new trading arrangements proposals in RoI and the trading arrangements in 1998 in GB). These range from a 'big bang' approach to a phased approach. If an inappropriate approach and market structure is chosen this could create risks of stranded costs and price instability. An inappropriate approach to market opening may have the adverse effect of adding to cost rather than providing an opportunity for the market to reduce cost through effective competition.

Therefore Ofreg has consistently opted for a phased approach to market opening. It is important to drive the costs out of the generation sector, which is essentially where the excess cost burden currently lies, thus setting up more favourable conditions for when the market is fully opened to competition.

It is important to note that choice of supplier, while vital to offer customer choice, is not by itself a remedy for the underlying high costs of generation which result from over priced long-term contracts set up at privatisation. These contracts have been partly re-structured but remain more expensive than comparable generation in other markets, particularly GB. It should further be noted that the nature of the contracts means that the generators are paid for being available to generate and that licensing arrangements are such that the counter-party to the contracts, NIE, has the right to pass the cost of these contracts on to customers. Clearly , as the franchise market (or

the "captive" sector) declines with further market opening, then an increasing burden of the excess costs would fall on fewer customers. This is an inequitable position, and this paper will outline an approach to deal with the costs of the long term contracts in a later section.

In consequence, the need to meet the existing generation costs has a number of effects: firstly, there is no separately identified "generation margin" to be competed away in these contracts – PPA generators are paid subject to their contract terms until contract expiry or cancellation – the margin is therefore internalised into the price base of the contracts. Secondly, it creates a situation where too much entry into the market by generators would actually increase the net cost to customers (ie., it would add to stranded costs). Thirdly the consequence of the first two effects is to limit the scope for suppliers to find alternative sources of wholesale power with which to build market share.

The two separate but inter-related markets which need to be restructured in order to facilitate market opening are the wholesale market and the retail market. These have distinct characteristics and requirements and both will change as the market is progressively opened.

Market Structure

The market will still be operated on a bi-lateral contract basis, ie customers will agree terms with suppliers, who will enter agreements with generators (either indigenous or external via interconnectors). Ofreg has been working with NIE and market participants to ensure that as further customers become eligible, and the market is somewhat restructured, there will be minimum disturbance to tariffs, while developing arrangements which are consistent with the requirements of the Directive. In addition, the mechanisms put in place to facilitate the next stage of market opening i.e. to all non-domestics (60% of demand) must not become obsolete or represent nugatory expenditure when it comes to the final stage of market opening in 2007. These are the two basic premises on which the paper is based. The most significant modification to the market rules as they are currently described in the Interim

Settlement Code (see the SONI website : http://www.soni.ltd.uk) will be in relation to top-up charges ie the amount of "make-up" energy purchased by a generator or supplier as calculated by settlements. The existing top-up price is set at the BST. However, as the average BST will fall as a result of the proposals, it will be necessary to introduce a two tier top-up price. Primary top-up will still be at the BST, with a 15% tolerance band. Secondary top-up will be at a higher price to encourage appropriate bilateral contracting and thereby to prevent intentional under-nomination by suppliers. Details of the secondary price will be confirmed in due course.

Options

In many policy decisions there is a "do nothing" option ie the cost of continuing with the status quo, which we then compare with the cost of the best alternative. In the market opening as required under the EU Energy Directive there is no such "do nothing scenario", as inaction would be a clear breach of the regulations.

There is however a "do minimum" position which is an option considered and rejected. Under this scenario, the market opens as planned to 60% ie all non-domestic customers. However, the effect of this, were the apportionment of system levies is left unchanged, would be to increase prices to large users. This will be compared to the preferred option, which involves a restructuring of system levies and the derivation of a new Bulk Supply Tariff. The next section examines these issues in more detail.

The Minister responsible for Enterprise Trade and Investment, in a press release dated 24 September 2003, indicated his intention to take out some of the excess cost of electricity flowing from the mistakes made at privatisation. This should deliver a 10% reduction in electricity charges to the business sector, on average compared to what they would otherwise have been. DETI, Ofreg and NIE are currently working to develop the proposal. However this paper shows as a base case what happens without intervention, while illustrating the benefits which it will deliver.

Chapter 3

The Draft Decision : Long Run Marginal Cost BST, System Charge re-apportionment and the effect on Competition

The present BST contains certain elements which are in excess of the long run price of generation from the existing stock of generation under contract. These costs are a result of the privatisation price and certain structural contracts eg the gas supply agreement, which are in excess of market rates. The transfer of some of these cost elements into a modified levy allows the BST to more accurately reflect the actual input costs rather than the contract prices which NIE inherited at privatisation. A combination of cost transfers and levy re-allocation is necessary to deliver the objectives established earlier in the paper.

This chapter models what needs to happen to produce an equitable and efficient outcome in principle and then shows the anticipated real world outcome after the outcomes have been modified by Government correction of some of its predecessors mistakes.

"Do Minimum Option" compared with the 2004 Market Proposal

Were market opening to take place on the basis of the existing arrangements ie the "do minimum" option, there would be a transfer of around £31 million from the BST to the PSO and SSS charges which are rcovered across all customers.

The detail is as follows : from April 2004 a new charge will be applied to System Support Services to cover a payment mechanism to allocate a small "capacity" payment to generators – ie a recognition of the value to system security provided by a connected generator. This will lead to an allocation of £12 million from the BST to the SSS charge. Additionally, the Customer Buyout (CBO) which resulted from the re-negotiation of the Ballylumford contract becomes liable for allocation across the wider eligible market. This would lead to a transfer of approximately £19 million from the BST to the PSO charge. This £31m it must be stressed is not a new charge.

It is already paid by the 65% of the market which is currently classified as franchise. Re-allocation is necessary as the franchise market declines to 40% and then zero.

The newly eligible sector would comprise of around 55,000 customers, each paying a share of the new levies, based on a flat per unit allocation. If we add this to the existing PSO and SSS levies (assuming no change from the 2003/04 levies totalling approximately £50 million) then we would arrive at a total levy of £81 million, which would be recoverable across all customers on a per unit basis.

Given that the eligible sector will now comprise 60 % of the market, £48.6 million would be recoverable over approximately 4,600 GWh of unit sales, leading to a levy charge of 1.06 p/kWh, an increase of 76% in levy charges (as compared to 0.6p/kWh for the year 2003/04), or a net increase in total price of 8% to a typical large industrial customer.

This is set out in Table 3.1 below : using a typical LIC customer as comparison, with the assumption of no change to other factors:
Note that all figures are estimates, and as such may not reflect final tariffs/charges.

Table 3.1

Typical LIC	**4,380,000 kWh per annum**	
Assuming "Do Minimum" Scenario		
p/kWh	2003/04	2004/05
Levy	0.6	1.06
Use Of System	1.0	0.97
Residual (Generation plus supply Margin)	3.75	3.75
Total Cost	5.35	5.78
Percentage Change		*8.0%*

When compared to the levy charge currently paid by the 35% eligible sector of around 0.6 p/kWh, then clearly the "do minimum" scenario is a retrograde step for the non-domestic sector and particularly for those existing eligible customers.

This illustration sets the scene for the approach which forms the basis of the draft decision. The first point we should note is that market opening to non-domestic level must be completed without placing any additional burden on the domestic sector as domestic customers have since 1999 paid more than their fair share of system costs and will, albeit to a lesser extent, continue to do so. It must be stressed that this is merely to continue with the practice adopted at market opening of allowing all the benefits of liberalisation to go to industry and commerce so long as domestic customers were not made worse off. Within this constraint, and the secondary constraint that all other NIE tariffs currently offered to the non-domestic sector should suffer minimum disturbance, the system levies have been sculpted to achieve this result, while causing minimal impact on levy charges to the Large Industrial Customers (LICs) which form the existing eligible sector. It is also important o note that all categories of customer will benefit from a reduction in NIE's transmission and distribution (T&D) charges.

Four example customers illustrate the points outlined above : the customers concerned are a domestic customer, a small non-domestic customer and again the typical large industrial customer from Table 3.1. The potential effect of such intervention will be outlined in the next section.

Table 3.2 : Standard Domestic Tariff

Average Domestic	**4000 kWh per annum**	
p/kWh	2003/04	2004/05
Levy	0.63	1.37
Use Of System	3.0	2.87
Residual (Generation plus supply Margin)	5.75	5.14
Total Cost	9.38	9.38

Table 3.2 illustrates that the draft proposal will maintain flat domestic tariffs, with a re-apportionment between residual and levies netting to zero. The above analysis applies to the 615,000 standard tariff domestic customers in NI, whose annual consumption amounts to 2,500 GWh.

Table 3.3 : Typical Small/Medium Enterprise (SME)
(current annual bill £1,500)

Typical SME	SME Quarterly Tariff	
p/kWh	2003/04	2004/05
Levy	0.63	2.26
Use Of System	2.4	2.29
Residual (Generation plus supply Margin)	6.73	5.64
Total Cost	9.76	10.19

Table 3.3 shows the effect on a small non-domestic customer on a standard tariff. It shows a 4.4% increase in overall cost to this customer type. However, this is a conservative estimate, and in practice such customers may not bear the full extent of this increase. Again, note the shift from cost recovery through the residual (ie BST plus supply margins) to the levy. This reflects the move to a long run marginal cost BST.

Table 3.4 below shows the effect on a larger SME customer, in terms of the likely change to NIE Supply tariffs to these customers. The following is illustrative, and may not necessarily fully reflect the final tariffs which will be published in January 2004

Table 3.4 : Larger SME Customer, current annual bill £20,000

Typical Larger SME	MV Multi-rate Tariff	
p/kWh	2003/04	2004/05
Levy	0.63	1.43
Use Of System	1.8	1.74
Residual (Generation plus supply Margin)	5.4	5.01
Total Cost	7.83	8.18

The price increase to the larger SME customer is predicted to be in the region of 4.5%. This assumes the customer does not change wholesale supplier. In practice customers may be able to access more competitively priced generation than assumed in this analysis.

The SME sector in total includes approximately 35,000 customers on standard tariffs consuming 800 GWh of annual demand. (In total there are around 55,000 customers in the SME sector).

Table 3.5 : Typical Large Customer (a 1MW customer, ie a Large Industrial Customer [LIC])

Typical LIC	4,380,000 kWh per annum	
p/kWh	2003/04	2004/05
Levy	0.6	0.9
Use Of System	1.0	0.97
Residual (Generation plus supply Margin)	3.75	3.75
Total Cost	5.35	5.62

Table 3.5 shows the effect on a large industrial customer. There are around 700 such customers, with an annual demand of around 2600 GWh. The assumption here is again conservative, based on information available on the cost of energy imported from GB via the Moyle interconnector from the auctioned generation of the Scottish Power contract with NIE, and assuming no significant reduction in base energy charges over the period. In practice large users may, through their suppliers, secure wholesale power at a more favourable price. However, under the pessimistic assumption, a 5% cost increase may result, assuming no significant reduction in base energy charges. This compares to the "do minimum" scenario price increase of 8%.

It is also important to note that in the draft decision scenario the system charges (the PSO and SS charges, as amended) are no longer recovered across customers on a per unit basis. This allocation method clearly had the potential to discriminate against larger users, who would bear a proportionately higher share of the increased levy cost. The analysis above is based on a mechanism for allocation of levies across customer classes, based on the customer groups' electricity usage. For example, larger users who can load manage (i.e. disconnect from the network and run stand-by diesels) do not make demands on System Support Services in the same manner as SME customers. The rationale followed in developing the levy apportionment arrangements is therefore both more equitable than a flat allocation and serves to assist in the delivery of minimum tariff disturbance in the SME sector and the maintenance of flat domestic tariffs.

Government Funds to Electricity Sector

The recent announcement of the intention to make £30 million of funds available from economic development monies to remove some of the out of market costs wrongly injected into the electricity cost base at privatisation will partly offset the non-competitive elements of the industry cost base which have been crystallised and placed in the modified levy structures.

Table 3.6 below illustrates the difference government support will make in relation to the total costs faced by three categories of electricity customer, namely SME Quarterly, typical larger SME (MV Multi-rate Tariff) and typical LIC. The table

compares a total cost figure for the 3 customer categories for the two "do something" options i.e. without and with government funds.

Table 3.6: Impact of Government Funds

	SME Quarterly	**Typical Larger SME**	**Typical LIC**
Total Cost (no government funds) p/kWh	10.19	8.18	5.62
Total Cost (with government funds) p/kWh	9.47	7.46	4.9
Reduction against where tariffs would otherwise have been	7.1%	8.8%	12.8%

The above tables illustrate the potential beneficial and pro-competitive impact of government intervention.

Outcomes

Clearly, within the constraints set out above, the draft decision is superior to the "do minimum" scenario as illustrated in Table 3.1. However, the fact that market opening – even under the carefully sculpted arrangements described above – could in theory lead to small, but for large users, significant, price increases is almost counter intuitive: increased liberalisation should lead to lower prices through competitive pressure on inefficient margins. The reason is grounded in the long term generation cost base which was manipulated by Government in 1992 to be unreflective of the underlying economic fundamentals of the industry. The present Government is rectifying these past mistakes and over time the out of market components of these contracts will fall away and generation would be at lower cost in relative terms – the actual price will be, however, dependent on future environmental cost mechanisms such as CO_2 emissions trading etc. This draft decision puts in place the framework for system charging and competitive structures which will allow customers to benefit from competition when the cost base of the industry better reflects economic input costs.

Next Steps

It is not technically feasible to have 55,000 customers change supplier on 1 April 2004. Time is required to allow new systems, particularly customer registration and UoS (use of system) billing systems, to be commissioned to facilitate the potential customer switching process.

The market will therefore open in stages beginning on 1 April 2004 and by early 2005, subject to the successful implementation of new systems, 60% opening will take place. On 1 April 2004 around 300 additional customers will become eligible, and the new eligibility threshold will be set at 500 MWh per annum. This will be accommodated using existing systems and resources. As part of this phasing, a further interim step may be possible around October 2004, if this can be accommodated both by the existing systems and by the market. A phased approach also allows for the identification and correction of any problems which might arise during implementation.

This approach will be facilitated by modest expenditure by NIE's regulated Transmission and Distribution Business, as approved by Ofreg for the purchase of the systems mentioned above. It is estimated that such costs attributable to opening the market to non-domestics will be in the order of £4 - 5 million, and that systems developed will serve as a basis for expansion to service full market opening in 2007. This compares favourably with other markets and is consistent with a least cost approach.

Levy Approval Process

NIE under its license submits the BST, PSO and SSS charge statements for approval to Ofreg on an annual basis. The UoS and NIE Supply tariffs are also approved.

Consistent with the completion of final estimates for the 2004/05 BST, PSO and SSS charges, Ofreg will receive and review these documents with the intention of presenting final approved tariffs to the market in January 2004.

Chapter 5

Progress to Date

A steering group, established as a representative sub-group of the IME Group, has been working to take forward the system design and procurement decisions necessary to deliver market opening for April 2004.

This group has made considerable progress, and has now agreed a system architecture for data gathering, UoS metering, billing and customer registration systems. A cost recovery mechanism (to be part of the PSO levy) has also been agreed in principle. Systems procurement and management will be undertaken by the NIE T&D business, under regulatory oversight. Ofreg and NIE are in the process of defining a financial incentive mechanism to ensure timely and cost efficient delivery of systems.

The group has also agreed an outline timetable for systems procurement, below:

Stage	Complete by
Complete Procurement – preferred supplier	Nov 2003
Finalise Market Rules	Dec 2003
Develop Business Case	Jan 2004
Seek Approval for detailed discovery phase	Feb 2004
Complete discovery phase	Apr 2004
Award contract for dull implementation	May 2004
New Market systems live	Early 2005

Ofreg and NIE are also currently working to clear the remaining legal issues regarding data protection in order to make customer data for the existing and expanded eligible market available, via Ofreg, to the second tier supply market prior to further market opening. It is hoped that this will make the process of acquiring customers more straightforward and ease the transition to wider competition.

Chapter 6

Conclusion

The Ofreg paper in March 2003 : "Competition and Customer Empowerment", and the subsequent responses received from the industry and interested parties, formed the basis for the proposal in this paper.

The requirements of the EU Energy Directive are such that we cannot continue with the status quo, and the process which led up to this paper has demonstrated that there needs to be a basic restructuring of the framework of costing and charging to recover the costs inherent in the existing power purchase arrangements. The development of revised levies and the move to a lower cost and transparent BST creates the scope for competitive customer switching and allows for further liberalisation to meet the 2007 requirement for full choice for domestic customers.

In the absence of such change, liberalisation would have the effect of increasing the cost base of the non-domestic sector, and reducing the options available to customers. Ofreg recognises the need to protect the ROF market which currently offers customers a "green option" and is clearly in the public interest.

Government intervention 2004 will have a significant effect in reducing the cost base of the industrial and commercial sectors and would serve to reinforce the move towards more competitive wholesale and supply markets.

The Republic of Ireland (RoI) will implement new market trading arrangements from 2005. The high level principles of the new market structure have been enacted in legislation in the Republic of Ireland. It is important to note that none of the proposals in, nor implications of this paper, in any way either assume or preclude the NI electricity market joining the proposed arrangements in RoI. The decision to join or otherwise will be taken separately by the Government for Northern Ireland according to what is in the best interests of Northern Ireland consumers and businesses. Ofreg and the Department along with the Electricity Supply Industry are monitoring closely developments in the Irish Republic. While cross border trade in

electricity has been growing rapidly since 2000 to the benefit of customers in both parts of Ireland and will continue to grow it is too early to come to a firm conclusion as to the organisational arrangements which would best develop that relationship in the interests of customers in Northern Ireland over the longer term. This will be the subject of separate discussion and consultation in the course of 2004.