



Response by Energia to Utility Regulator Consultation

***Draft Forward work programme 2016/2017-
'Our business plan for the third year of our Corporate
Strategy 2014-2019'***

23rd February 2016

Introduction

Energia welcomes the opportunity to respond to the Utility Regulator's consultation on Draft Forward work programme 2016/2017. The publishing of the forward work programme in consultation format is a welcome approach and affords stakeholders the opportunity to contribute to its development. Whilst there a number of significant projects being undertaken by the UR in the coming period, it is the I-SEM and DS3 Programme that is of most importance to consumers, businesses and the economy as a whole and that presents the biggest challenge to the sector. It should be prioritised accordingly in a manner that respects the fundamental economic and legal imperatives to design a market that delivers efficient outcomes for consumers; helps develop the conditions required to support effective retail and wholesale competition; contributes to security of supply and sustainability; and respects the requirement that generators should be able to finance their activities. In addition, a number of significant projects have been omitted from the work programme that we believe should be included.

I-SEM and DS3

Whilst I-SEM does feature in the UR work programme, it is largely discussed in the context of complying with EU target model requirements. For example 'delivering the I-SEM on time' is recognised as a 'key challenge' in the UR's Corporate Strategy. The UR is therefore aiming to deliver the I-SEM by the end of 2017 with **'[A]nticipated outcome/s'** as detailed below (our emphasis).

Strategic objective 2: Promote efficient and competitive markets
Flagship projects are coloured blue in the table below.

Ref	Project description	Anticipated outcome/s	Link to Corporate Strategy KPIs	Lead team	Timing
1	Progress the I-SEM project to ensure delivery and compliance with the EU target model	Should place downward pressure on prices, support security of supply, facilitate increased integration of renewables, support competition and increase investment.	KPI 1 and KPI 3	Wholesale Markets	Full year
2	Progress work on the Secure, Sustainable Electricity System (DS3) project	Will maximise the use of renewable generation on the island of Ireland and put downward pressure on prices.	KPI 3 and CS Objective 3, KPI 2	Wholesale Markets	Full year
3	Review the effectiveness of competition (phase 2)	Will define how we regulate the retail market going forward. Will enhance consumer protection and provide clarity for industry on the future direction of retail market regulation.	KPI 2	Retail Markets	December 2016
4	Progress the implementation of the Capacity Remuneration Mechanism for I-SEM	Will ensure efficient use of generation capacity; promote competition among generators and support security of supply.	KPI 1 and CS Objective 3, KPIs 1 and 2	Wholesale Markets	Full year

It is simply not the case that progressing I-SEM on time to ensure compliance with the EU target model will necessarily deliver the 'anticipated' benefits. Nor is it true, based on the current design, that DS3 will necessarily deliver the investment required to maximise the utilisation of renewables on the island of Ireland. Furthermore, there is a real risk that the CRM for I-SEM will actually undermine competition and may not support security of supply. We therefore suggest that 'Anticipated outcome/s' be relabelled 'Desirable outcome/s' and, most importantly, that the I-SEM and DS3 Projects be prioritised in a manner that respects the fundamental economic and legal imperatives to design a market that delivers efficient outcomes for consumers; helps develop the conditions required to support effective retail and wholesale competition;

contributes to security of supply and sustainability; and respects the requirement that generators should be able to finance their activities. We would also draw your attention to Energia's previous submissions on market power, forward market liquidity, the capacity mechanism, and DS3, covering our concerns about the design, complexity and delivery of I-SEM and DS3 and the material impacts that failing to address these problems will have for the industry and consumers.

Network connections

Recent policy shifts have exposed renewable projects to increasing levels of uncertainty. The early closure of NIRO has meant that projects that planned, funded and developed under the assumption that they would make it into NIRO may not meet the revised deadline. With finite network resources and limited time remaining to qualify for NIRO it is critical that advanced projects are given every opportunity to access supports

Given the closure of the NIRO and the scale of connections and network reinforcements which need to be completed by UR before 1 April 2017, as well as interfacing between UR and OFGEM in relation to accrediting projects, the deliverability of network connections must be a priority project. A key priority of the UR should therefore be delivering NIRO connections and not necessarily focus on delivering contestability.

Additional projects

A work programme is unlikely to be an exhaustive list and there are of course finite resources. However, bearing this in mind there are still a number of projects that we believe merit inclusion in the work programme.

Given that energy efficiency is a key component of national and international efforts to reduce GHG emissions it is concerning that there is no reference to NISEP or a replacement scheme in this years' programme. Whilst NISEP and a replacement scheme have previously been mentioned in the forward work programme¹ it is surprising that this iteration has not included any reference to it, particularly in light of NISEP'S closure and the forthcoming NI Energy Bill.

In addition to the above point both Smart Metering and Smart Grid are significant projects that will have major impact on the energy sector. The absence of these projects from the forward work programme would seem to indicate that neither of these projects will be progressed during the lifetime of the work plan and that they have dropped down the list in terms of priority. As the above projects require significant resources and have lengthy lead in times their continued inclusion in the work programme would be beneficial.

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http://www.uregni.gov.uk/uploads/publications/Draft_FWP_201516_final_2.pdf