

A FORWARD WORK PLAN FOR 2001/2002

Issued by:

**THE DIRECTOR GENERAL OF ELECTRICITY SUPPLY
FOR NORTHERN IRELAND AND
THE DIRECTOR GENERAL OF GAS FOR NORTHERN IRELAND**

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FORWARD WORK PLAN

Introduction

This is the third Forward Work Plan I have published. It sets out the main tasks which I expect to undertake in the year commencing 1 April 2001. These will be taken forward with the support of staff in the Office for the Regulation of Electricity and Gas (Ofreg). When my previous plans were issued I invited comments about their relevance and priorities from all interested groupings. These proved of considerable value as the work was progressed and similar input is invited in response to this Plan.

Summary

The tasks described in this Work Plan which I expect to undertake in 2001/2002 will contribute to Ofreg's main objectives of:

1. Protecting the interests of electricity consumers with regard to price and quality of service;
2. Promoting competition in the generation and supply of electricity;
3. Promoting the development and maintenance of an efficient economic and co-ordinated gas industry and protecting the interests of gas consumers with regard to price and quality of service;
4. Promoting energy efficiency and reducing harmful environmental emissions.

It must be borne in mind that the work involved in meeting these objectives is not necessarily confined to the period covered by a particular Plan. Because of this I have, where appropriate,

described some of the actions which will be taken in their broader context.

In addition to work contributing directly to the objectives outlined I have included in the Section headed 'Other Activities' a number of essential tasks on which Ofreg staff will be engaged in the year ahead.

In addition to the specific tasks described in the following pages it must be emphasised that many other activities are undertaken on an ongoing basis. These include those of a general nature, such as the financial and administration activities involved in the running of a Non-Ministerial Government Department; and those which are organisationally biased, such as the handling of unresolved electricity complaints, and the issue of gas and electricity licences.

The anticipated cost of running Ofreg in 2001/2002 which will largely be recouped through a charge on licence holders, has been included in the Financial Annex to this Plan.

1. PROTECTING THE INTERESTS OF ELECTRICITY CONSUMERS WITH REGARD TO PRICE AND QUALITY OF SERVICE

Supply Price Control

In 2000 I agreed a new Supply Price Control with NIE which will last until 2005. This removes NIE's incentive to sell more electricity and provides incentives to promote energy efficiency and renewables. From 2002 to 2003 the Supply Business's prices must fall by 3% per annum in real terms. NIE will as part of this control replace prepayment meters with a Keypad system which will end the discrimination against prepayment customers and facilitate the more efficient use of energy.

Transmission and Distribution Price Control Review

The current price control for the Transmission and Distribution business of NIE runs until

31 March 2002. The process of formulating a new price control has already begun and in the Summer I intend to submit formal proposals to the company for the new price control which will come into effect on 1 April 2002. The formulation of a new price control requires a detailed examination of all aspects of the T&D business. This will require me to determine the regulatory asset base, the required cost of capital, and the appropriate level of capital and operating expenditure for the T&D business. The new price control will seek to set a revenue stream which enables NIE to finance its regulated activities while at the same time sharing with customers the efficiency gains achieved since privatisation. If NIE and Ofreg cannot agree a price control the matter can be referred to the Competition Commission for its consideration.

Social Action Plan

In May 1998 I published Electricity and Gas Social Action Plans to achieve efficiency, choice and fairness in the provision of electricity and gas to disadvantaged consumers. Progress with each of these plans, a process which involved discussions with the Companies and the Consumer Councils, was reviewed in the second half of the calendar year 2000.

The results of the review, which will incorporate proposed plans for 2001/2002 and beyond, will be published for consultation in the early part of 2001. Following this final draft proposals will be formulated and issued for further consultation. It is expected that the resulting Electricity and Gas Social Action Plans will be published in the Autumn of 2001.

NIE Standards of Performance

I plan to review the Guaranteed and Overall Standards of Performance which I set for NIE from 1 October 1999 as part of the review of the Company's Transmission and Distribution Price Control. I have already undertaken market research through a Customer Survey and expect to formulate proposals and consult widely on these early in

2001. Later in the year I expect to publish draft and subsequently final proposals for the Standards for implementation from 1 April 2002.

Revenue Protection

Revenue Protection is the umbrella term used to refer to meter interference and the illegal extraction of electricity. The manner in which NIE discharges its revenue protection responsibilities is being reviewed in conjunction with NIE.

This Review is nearing conclusion and I am hopeful that a Revenue Protection policy statement can be concluded with NIE by the summer of 2001.

2. PROMOTING COMPETITION IN THE GENERATION AND SUPPLY OF ELECTRICITY

Generation, Competition and Lower Prices

At privatisation there were five contracts which provided for Northern Ireland's electricity supply. Four were with power stations and one was a supply agreement associated with the Scottish Interconnector. There was also provision for long-term contracts for renewable electricity under the Non-Fossil Fuel Obligation Orders (NFFO).

Four of the five contracts have now been changed. The Scottish Interconnector is under construction as is a new Combined Cycle Gas Turbine (CCGT) at Ballylumford. A CCGT will also replace the station at Coolkeeragh which will be run down from 2002. The burden imposed on customers by the excess cost of NFFO will be diminished by the auctioning of the NFFO output. NIE's Power Procurement Business has been incentivised to operate as a power trader.

To date these changes have brought prices lower than they would otherwise be and if fuel

prices had remained at their 1999 level they would have delivered lower electricity prices to all classes of customers.

The one contract which to date has not been changed is the Kilroot contract. In its present form this contract is not working in the public interest. It must either be changed or challenged. Leaving it in place in its present form until 2010 is not an acceptable option.

In 2001 the market will be opened to 35% of electricity demand for fossil fuel power stations and it is already 100% open for renewable electricity.

The next stage is to develop the market as required by domestic and European Law but to ensure that this is done in a way which reduces prices to all classes of customers.

During the year I will publish a further paper on Generation, Competition and Lower Prices. I also propose publishing annually the benefits to customers of the Ballylumford contract changes.

Market Opening and Customer Choice

The IME Directive continues to be implemented in Northern Ireland, with the target market opening level of 35% being met on 1 April 2001, two years ahead of the schedule determined by the European Commission. There are now around 680 eligible customers which are able to participate in the liberalised electricity market. The Interim Trading Arrangements established in 1999 are under review and may be amended in line with experience in the market. The spare NIE-contracted generation capacity which was made available to suppliers under auction in 1999/2000 has now expired. There are instead two Independent Power Producers (IPPs) in the market supplying around 270MW of capacity for the eligible market.

The Moyle interconnector is due to be commissioned on 1 January 2002, and

interconnector capacity will be available to the eligible market from that date. Ofreg has allocated the capacity from 1 January 2002 to 31 March 2002 based on an auction, and from 1 April 2002 the capacity and charging structures will be set following a comprehensive consultation process which will commence in May 2001.

Market structure will also be kept under review, including the long term position of the Transmission System Operator (TSO) and the NIE Power Procurement Businesses.

Ofreg will consider the potential for opening or liberalising the market beyond the limits of the EU Directive, subject to any such developments leading to lower prices and greater competitive choice.

North-South Electricity Trades

The energy trades using the North-South interconnector which were made possible in 2000/01 will continue in 2001/02, with further interconnector capacity available. There will be scope for transit flows from Scotland to the Republic when the Moyle is commissioned. Ofreg will keep under review the means of charging for system access and the effect on transmission costs of any such transit flows, and the consultation on the Moyle interconnector will also examine this issue in more depth.

3. PROMOTING THE DEVELOPMENT AND MAINTENANCE OF AN EFFICIENT ECONOMIC AND CO-ORDINATED GAS INDUSTRY AND PROTECTING THE INTERESTS OF GAS CONSUMERS WITH REGARD TO PRICE AND QUALITY OF SERVICE

Phoenix Price Controls

Under its Gas Conveyance licence, Phoenix has exclusive rights to convey gas in its licensed area until 2016. Because of this, I have powers to regulate Phoenix's gas

conveyance charges. The current price controls on Phoenix's Conveyance Business are up for revision at the end of 2001. The review process for the revision of Phoenix's allowed revenue commenced during the last financial year and is scheduled to be completed this Autumn in time for the gas conveyance charges to be agreed for January 2002.

In addition, Phoenix's Gas Supply licence allows them certain exclusive rights to supply gas until 31 December 2004. However a price control on Phoenix's Supply Business can be put in place after 2001 for customers consuming less than 75,000 therms per annum if I determine that competition from other fuels is insufficient to protect the interests of these consumers. I intend to consider this matter during the course of this year and issue my determination early in 2002.

Further Gas Licences

Work will continue in the coming year on the issue of extending the gas network beyond the Greater Belfast area. Several applications for licences have been received and are being considered against a background of uncertainty about the strategy for gas pipelines in the Irish Republic and the threat to gas expansion from the Climate Change Levy. There are many obstacles to be overcome and the issues are complex. However Ofreg will continue to work with the Department of Enterprise, Trade and Investment to contribute to reducing the uncertainties and to progress to the issuing of licences.

4. PROMOTING ENERGY EFFICIENCY AND REDUCING HARMFUL ENVIRONMENTAL EMISSIONS

Environmental Matters

Government has committed itself to reducing greenhouse gas emissions to 20% below their 1990 level by 2010. The electricity supply industry is increasingly expected to play its part in reducing such greenhouse gas emissions and promoting sustainable

development policies.

During 2000 I agreed with NIE Supply Business an extension of its price control to 2005. As well as tightening cost efficiencies, this new control introduced incentives on the company to play an increasingly pro-active role in environmental matters. The company has been incentivised to reduce sales of electricity generated from fossil fuels to domestic and small business customers by investing in renewables so that by March 2005 it will increase tenfold (to 25GWhs per year) sales of renewable electricity.

The company has also been given a target to increase investment in energy efficiency and for a general reduction in energy consumption by customers on standard domestic tariffs which, if achieved, should reduce the overall level of greenhouse gas emissions per household. During 2001 I intend to work closely with the company in assessing progress made in environmental improvements through the new schemes adopted in the new price control. I wish to encourage NIE to explore further the opportunities for developing a scheme to promote electric vehicles.

In September 2000 I published a consultation paper on stimulating renewable generation in Northern Ireland. Over the course of the next six months I intend to make recommendations following the consultation on how to progress investments in renewables.

Energy Efficiency and Fuel Poverty

The Energy Efficiency Programme which was introduced in 1997 continues to grow and goes from strength to strength. So successful has been the response to this initiative that the £1 per customer levy which supports the programme has been increased to £2 in 1999/2000. The energy efficiency projects towards which this money has been targeted, have to date led to annual savings of about £7.5 million for 64,000 customers, many of whom are customers who have difficulty meeting their energy costs.

This £2 levy will continue throughout the forthcoming Work Programme and my staff will continue to work closely with the Energy Savings Trust and NIE to ensure approval and implementation of only the best targeted and most cost effective schemes to provide energy efficiency benefits to a wide range of customer groups but most specifically the elderly, the disabled and those on low incomes.

As a result of this scheme NIE has been able to deliver reductions in energy bills to thousands of its customers. It has also led to an agreement on the new Supply Price Control which will, until 2005, provide NIE with extra incentives to both promote energy efficiency and work towards the eradication of fuel poverty.

OTHER ACTIVITIES

Competition Act 1998

This Act, which came into force on 1 March 2000 gave me, along with other sectoral regulators, concurrent powers with the Director General of the Office of Fair Trading to investigate anti-competitive behaviour in the Northern Ireland electricity and gas markets. Ofreg staff have been trained to offer guidance to undertakings and to investigate complaints of anti-competitive behaviour. A number of cases were handled in the first year of operation of the Act.

Ofreg will continue to subject the Northern Ireland electricity and gas markets to the full rigour of the Competition Act where appropriate and its staff will play a full part in the development of National and European policy in competition matters through its participation in the national Concurrency Working Party.

Climate Change Levy - Exemption For Renewables

This new area of work was allocated to Ofreg through a clause in the Finance Act 2000.

The Climate Change Levy (CCL) is a levy of 0.43p/kWh to be paid from 1 April 2001 by non-domestic electricity customers. However electricity from renewable sources will be exempt. Ofgem will be responsible for the accreditation of qualifying renewable generators, issuing Levy Exemption Certificates (LECs), recording the issue of these certificates and reporting to Customs and Excise.

This is a significant block of new work and throughout 2001 Ofgem will work closely with Ofgem on the implementation of the scheme.

Equality Scheme

My office is required under Section 75 of the Northern Ireland Act 1998, in carrying out its functions, to have due regard to the need to promote equality of opportunity -

- (a) between persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
- (b) between men and women generally;
- (c) between persons with a disability and persons without; and
- (d) between persons with dependants and persons without.

It is also required to have regard to the desirability of promoting good relations between persons of different religious belief, political opinion or racial group.

In fulfilment of these requirements I have produced a draft Equality Scheme which I expect to issue for consultation in the early part of 2001. Following consultation the Scheme will be submitted to the Equality Commission for Northern Ireland.

When the Scheme has been approved implementation will include, among other actions,

a series of impact assessments on Ofreg activities which will help me to gauge whether they have, or are likely to have a differential impact on relevant groups. If an adverse effect on any of the groups is identified I will need to consider measures which might mitigate the effect and alternative policies which might better achieve the promotion of equality of opportunity. The timetable for this work will be published in the draft and final versions of Ofreg's Equality Scheme and may span a number of years.

Code of Practice on Ofreg's Consultation Procedures

I issued a draft Code of Practice outlining Ofreg's consultation and decision-making procedures in November 1999. The Code had been prepared in anticipation of a requirement in the Utilities Bill which would subsequently be reflected in Northern Ireland legislation. In the event while the Utilities Bill stressed the importance of consultation through a series of references it did not introduce a specific requirement for a Code. In view of this I have decided I should not proceed with publication until the content of future Northern Ireland legislation is known.

Conclusion

Many of the areas of work described in this Plan will be familiar to those who are in regular contact with Ofreg or who have an interest in the functions I have a duty to exercise within the limits of my Statutory Duties. I would very much welcome views relating to the relevance, priorities or detail of the work I plan to undertake. I would also welcome comment on other matters which may be regarded as relevant to which readers consider I should be directing my attention. I am indebted to Ofreg staff for their enthusiastic commitment to the objectives I have set and to many others for their support and advice.

Your comments should be sent to:

Leslie Adams
Ofreg
Brookmount Buildings
42 Fountain Street
BELFAST BT1 5EE

to arrive no later than 30 April 2001.

Fax: 028 9031 1740
e mail: ofreg@nics.gov.uk

FINANCIAL ANNEX

Ofreg Costs - 2001/02

Ofreg's total cash spend is forecast to fall from an estimated £2.633million in 2000/01 to £2.000million in 2001/02.

The anticipated reduction in total costs is expected to arise as a result of a high proportion of the work on NIE's price control, which was undertaken on Ofreg's behalf by external consultants, being completed in the 2000/01 financial year.

Staff costs are expected to increase by 10 per cent in 2001/02 due to the occupancy of vacant posts within Ofreg.

For the period 2002-2004, Ofreg anticipates expenditure will continue at a similar level. This will depend on the volume of future work, some of which is determined by factors outside Ofreg's control.