

# **NIE Transmission & Distribution (NIE T and D) Price Control 2012 – 17 (RP5)**



# Outline of presentation

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- Utility Regulator Proposals
- Impact on Consumers
- Next Steps

# Background

- NIE T&D (owned by ESB) is the owner of the transmission and distribution electricity network in NI.
- The network comprises overhead lines, underground cables and substations.
- The network connects power stations and other sources of electricity generation to businesses and homes.
- NIE T&D is a monopoly business, so the Utility Regulator regulates the amount of revenue which NIE T&D can achieve via a 'price control'.
- The regulated costs associated with NIE T&D are recovered from customers through network charges.
- Network charges makes up approximately 24% of domestic electricity bill.



# Key principles

- The protection of consumers
  - Consumers do not pay twice
- Provide appropriate allowance for NIE T&D to finance its regulated activities
- Ensure renewable investment is provided in a timely manner

# HIGHLIGHTS

- Covers 1<sup>st</sup> October 2012 – 30<sup>th</sup> September 2017
- £314M Capex for reliability and growth
- Special treatment renewables and interconnector investment
- Facilitates delivery of energy policy
- £257M Opex
- £22M Pension
- All price 2009/10

# Key Utility Regulator proposals

- Capital Expenditure - Capex
  - Renewable investment will be made a special case, up to £306 million of ring-fenced funding, process to ensure timely approvals
  - The high level of investment for RP4 will be maintained for RP5, £314 million of funding allocated to maintain NIE's high level of network performance and growth.

	RP4 Actual	RP5 (NIE)	RP5 (Ureg)
Capex (BAU)	£289M	£717M	£288M
Capex Connections	£67M	£59M	£27M
Renewables	£18M	£306M	<i>Project-by-project</i>

# Key Utility Regulator proposals

- Operational Expenditure – Opex
  - Efficiencies indentified and incentivised
  - 9% gap with GB peers
  - X of 1 to apply

	RP4	RP5 (NIE)	RP5 (Ureg)
Opex	£284M	£345M	£257M



# Key Utility Regulator proposals

- Pensions
  - Ongoing costs of the pension accepted in full (£10.5 million)
  - Deficit in NIE's defined benefit pension fund of £87M at 31 March 2011
  - £69M associated with regulated business
  - Deficit repair for
    - unavoidable costs of £36M
    - avoidable costs £33M
    - Customers will pay £12M in RP5

# Key Utility Regulator proposals

- Rate of return (WACC)
  - allowance of 4.45% for reliability and growth capex (pre tax real)
  - allowance of 4.0% for renewables and interconnection (pre tax real)

	<b>GB DNOs</b>	<b>NIE T&amp;D</b>	<b>Our proposals</b>
Pre-tax WACC (real)	5.6%	6.4%	5.25%
Vanilla WACC (real)	4.7%	5.34%	4.45%
Vanilla WACC (nominal)	7.5%	8.5%	7.9%

To convert the real vanilla WACC to a nominal WACC, the inflation used for GB DNOs was 2.7%, 3% for NIE T&D and 3.35% (average) for the Utility Regulator proposals.

# Impact on consumers

- Further high levels of capital investment to ensure continued reliability of network
- Support for renewables
- Inflation excluded

	Current	2016/ 17 Excluding Renewables and Interconnector	2016/17 Renewables and Interconnector
Domestic (4041 kWh/year)	£146	£122	£128
Small Business	£505	£421	£441
EHV Customer (27 GWh/year)	£138,850	£115,259	£139,010

# Next Steps

- Consultation period ends **19 July 2012 @ 5pm**
- Focus on extensive consultation with stakeholders over the consultation period – to also focus on issues such as capitalisation practice
- Final determination expected before the end of the year

# QUESTION AND ANSWER SESSION

# Thank you for your participation

Responses to RP5 Draft Determination by  
**19 July @ 5pm**