

McIlldoon Report Q and As

Q.1 Why was the McIlldoon report commissioned?

A. Following the announcement of a 33.3% increase in tariffs by NIE Energy on 10 September, some concerns were raised about the robustness of regulatory scrutiny to determine whether the rise was justified. The Utility Regulator, acting on these concerns and in the interests of consumers, commissioned an independent review. Its Terms of Reference were published on 18 September.

Q.2 What did Douglas McIlldoon review?

A. The key questions that Douglas McIlldoon was asked look at were (as outlined in the terms of reference):

- The Utility Regulator's scrutiny of the proposed tariff increase;
- The consultation process between NIE Energy, the Utility Regulator, the Consumer Council and the Department of Trade, Enterprise and Investment;
- Whether the outcome (i.e., the 33.3% rise) was justified;
- The Utility Regulator's scrutiny of hedging processes;
- Any regulatory policy areas that should be addressed to improve effectiveness and fairness of risk management in the NI energy industry.

Q.3 What did the review find out?

A. On the key areas identified in the Terms of Reference:

- **The Utility Regulator's scrutiny of the proposed tariff increase**

The review concludes that "the process that was followed was similar to the process which had been followed successfully in the past," and that it was followed with the same rigour as in previous years (para. 2).

- **The consultation process between NIE Energy, the Utility Regulator, the Consumer Council and the Department of Trade, Enterprise and Investment**

The review found no anomalies or shortcomings, and is the same consultation process that has been followed ahead of previous announcements on price, be they increases or decreases. However, the report notes that the Consumer Council's role within this process requires clarification. It recommends that the Council should "assume a role which is less implicated in the process of the tariff review, and [is] more focussed on the wider social context and implications of the review" (para. 3.xvii).

- **Whether the outcome (i.e., the 33.3% rise) was justified**

Within the process used this year (and that has been in place for many years), the review concludes that "the price increase was an inevitable outcome, given the rising fuel prices, and in that sense was justified" (para. 2).

However, the report also makes a number of policy recommendations aimed at reducing energy costs and prices over the longer term (see below).

- **The Utility Regulator's scrutiny of hedging processes**

The review indicates that "in doing what had worked in the past, purchasing in advance so that the extent of customers' exposure to future fuel price movements was minimized, NIE Energy Supply was in my view acting prudently within the context in which it was required to operate" (para. 38). The review also found no anomalies or shortcomings within the Utility Regulator's process (para. 56).

However, the review recommends that NIE should be allowed to hedge more flexibly in future and that the market structure should be changed so as to reduce inherent exchange rate risk (para. 3, xiii – xv, and paras. 138-145).

- **Any regulatory policy areas that should be addressed to improve effectiveness and fairness of risk management in the NI energy industry.**

Mr McIlldoon makes a series of policy proposals relating to:

- The development of the Single Electricity Market
- Government's role in securing energy investment
- Customer ownership
- Investment in non-wind- and micro-renewables
- Addressing fuel poverty
- Tariff structures
- Hedging

In the closing section of the report Mr McIlldoon also poses a series of questions for policy makers.

Q.4 If the price rise was 'justified' in September because of higher fuel costs why are electricity prices still high as fuel costs have fallen over the last couple of months ?

A. To a significant extent, high prices were “locked in” by advance purchases over the summer. However, this is not 100% the case, and the cost to serve consumers remains somewhat linked to wholesale fuel trends. The Utility Regulator constantly monitors the wholesale markets, and announced a review of electricity tariffs on 24 November. The outcome of the review will be announced before Christmas. It is hoped that a reduction in electricity prices will be possible.

Q.5 What about some of the broad issues in the report, what will happen to these recommendations?

A. Where the report makes recommendations relating to regulation, the Utility Regulator will reflect on them over the coming months. However, many of Mr McIlldoon's proposals relate to Northern Ireland's overall energy policy. The Department of Enterprise, Trade and Investment's current consultation on NI's Strategic Energy Framework provides an ideal vehicle for considering Mr McIlldoon's proposals, along with other inputs to that wide conversation.